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THE WHEEL OF WEALTH.

THE WHEEL OF WEALTH:

BEING

A RECONSTRUCTION OF THE SCIENCE AND ART

OF

POLITICAL ECONOMY

ON THE LINES OF

MODERN EVOLUTION.

BY

JOHN BEATTIE CROZIER.

Author of
'History of Intellectual Development'
'Civilization and Progress,'
My Inner Life,' etc

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To

My Old and Dear Friend

ION PERDICARIS,

to whose wide range of general culture, penetrating insight and sympathetic encouragement, I have all along been deeply indebted for suggestions and criticism,

I dedicate

This Volume.

PREFACE.

IN the ordinary way this volume would not have required a preface, as the title-page speaks for itself, but a word or two is due to the reader in explanation of its disconnection from the series to which it naturally belongs. Originally I had intended to issue the whole of my works under the general title of the 'History of Intellectual Development,' but I have been warned by my literary advisers that in doing so I should seriously prejudice their reception by the public, inasmuch as the common title given to each volume in succession was calculated to give the impression that no one volume could be read with full appreciation and understanding without a knowledge of those which had preceded it: and besides, that the subjects with which I had dealt in Vol. III. being almost entirely problems of Politics and Society could not properly be said to fall under the designation of a History of Intellectual Development.

Now, when I projected this series, over a quarter of a century ago, what I proposed to myself was, to treat the subject-matter of each volume as a 'specialism,' and to keep each quite independent of every other, except in so far as all alike would be written from the new standpoint, which under the title of 'A New Organon' I had explained at length in my first volume, 'Civilization and Progress,' and which was to be the keynote as it were of the whole. I have therefore decided to issue this volume simply as an independent treatise on Political Economy, although I wish it to be understood that it comes in its natural place in the series as originally projected. The point, however, on which I desire to concentrate the reader's attention, and which will explain, besides, why I have included in a book on Political Economy an introductory chapter on 'the dangers of Specialism,' is the

question of whether the 'general thinker' or what in the old days was called the 'philosopher,' is to be superseded by the 'specialist,' or not. From the time of Comte, Guizot, Carlyle, and Emerson, down to that of Buckle, Renan, and Taine, this 'general thinker' has been gradually falling into disrepute in literary and academic circles, until with the deaths of Lecky, Sir Leslie Stephen, and Herbert Spencer, we may say that, except perhaps in the French Academy he has become practically extinct; being elbowed out by the Novelists, the Magazine-writers, the Preachers, and the Press on the one hand, and by the Academicals and 'Specialists' on the other: on the ground, as the latter would say, that being a kind of 'Jack-of-all-trades' he is master of none. I well remember the impression made on my mind many years ago, when Dr. Hutchinson Stirling in his book on Hegel, talked of Goethe as a mere feather-weight philosopher as it were, compared with Hegel. I afterwards discovered that it was because Goethe was not an 'ontologist' —that is to say, one who thoroughly understands the mystery of the Universe and can cover it with a formula—that he was denied substantive rank as a philosopher. Goethe, it appeared, had not attempted to shew you how the 'One' and the 'Many' could exist together under *one* hat, and yet be both 'One' *and* 'Many' as Hegel had attempted to do,—although Hegel, no more than any other poor mortal, succeeded in doing it, as I shall some day attempt to show. And it was because the academical 'ontologists,' claiming the sole right to the title of 'philosophers,' thought that they had caught Herbert Spencer napping, when in a few chapters of his Introductory volume on 'First Principles,' he too made an attempt to solve the ultimate Problem of Existence, that they have been so stinted in their appreciation of his work—and that, too, although otherwise he had enriched every side and aspect of Thought which he touched, and had even helped to found several new Sciences. He, like the rest, had not been able, it seems, to jump the gulf between the 'One' and the 'Many,' without

falling into the water—a feat believed to have been accomplished only by Hegel—and that was enough! Indeed one of them, and a man of broad general culture too, asked me once in surprise whether I really thought Herbert Spencer was a 'philosopher'! But, curiously enough, one of the latest exponents of Hegel finds that the 'One' is only a more intimate kind of *relation* among the 'Many' after all! Now as I am firmly of opinion that the 'general thinker' (the Academicals notwithstanding) has still as necessary a function to discharge as ever in the progress of knowledge, I would venture to suggest that the subject of Political Economy would make as good a tilting-field on which in a limited way to decide the issue between the general thinker and the specialist as any other. The number of readers interested in the problem of Political Economy, since the revival of the Free Trade and Protection controversy in England, is now very large; the jury of instructed readers outside of the Academical ranks, who are intimately acquainted with the doctrines of the Orthodox School, is sufficient in numbers, in ability, in independence of thought, and in fairness of judgment, both to hear and to judge the cause; and the issue in this case is both clear and simple, and may be put as follows:—On the one hand, my contention is, that no scientific specialism dealing with *human* affairs, and in which human beings—and not mere physical forces—are the chief actors, can be anything but *practically* false in its deductions and conclusions, until it is overhauled and reconstructed from the standpoint of Civilization in general, which embraces them all alike;—as in an Army where the Generals of division must work under the co-ordination and supervision, from a wider point of view, of the Commander-in-Chief. The Academicals and the specialists on the other hand, deny the competence of any general thinker as such for this supervisory and co-ordinating function, and claim that they themselves as 'specialists' are the final court of appeal, each in his own line of work; not only in the

Mathematical, Physical, and Biological Sciences, where the 'general orders' under which they march have already been given them by men like Bacon, Newton, and Darwin, but in the Human Sciences as well, such as Psychology, Philosophy, Religion, History, Ethics, Political Economy, etc., where up to the present—in so far as any general principles common to them all are concerned,—all is chaos. If then we take Political Economy, which is a recognised 'Specialism,' as a test-case, we find that the Academical Economists claim that in all its general principles, its laws, and its deductions,—if not in all its special details,—it is practically a complete and perfected Science. In this volume, on the contrary, I shall attempt to show that having had the Science in their own hands for a century or more, literally not one of their fundamental propositions or deductions is true, and that most of their practical conclusions are false; and in order that the matter may not be left hanging in the vague, I have made a first rough attempt at a reconstruction of their Science, on other principles and other methods,—all of which principles I have drawn simply from the standpoint of the 'general thinker' who has to keep his finger on the pulse, as it were, of the Human Sciences in their combination and correlation, if he is to see into the true inner workings of any one of them.

In this attempt I am glad to acknowledge my indebtedness to the works of a number of economists outside the ranks of the orthodox and academical schools; notably to those of Mr. Gunton, Mr. J. M. Robertson, Mr. Hobson, Mr. Mallock, and the essayists of the Fabian Society; from each of whom I have received principles and points of suggestion which I have utilised in the course of my own work, and have referred to at their appropriate places in this volume.

But a word or two perhaps is necessary in reference to my attitude on the burning question of Free Trade and Protection. My sincere conviction which has been entirely unbiassed by all considerations of party, and which rests simply on such

arguments as those with which I have supported it, is that in the present stage of Civilization, where nations have separate political existences which it is their dearest wish to maintain, Protection, varying in degree and incidence according to the circumstances of each nation, is more conducive not only to the the economic welfare of the world as a whole, but to its orderly progress as well, than a universal Free Trade; although should that millennial time ever arrive when all the nations would form themselves into a single *political* unity, no one would be a stronger advocate of a universal Free Trade than myself; and that too for reasons which I have given in the course of this work. And hence it is that I have devoted so large a section of the volume to the discussion of the problem of Free Trade and Protection, both in its theoretical and its practical bearings, as well as having given so much space to the history and evolution of their respective doctrines. At the same time I fear that in both the extent and the rigour with which I would apply the principle of Protection when necessary, I shall have out-run the sympathy even of the hardiest and most thorough-going of Protectionists; so deterrent an effect has the high authority and prestige, the long reign and influence of the orthodox Political Economy, had on the minds of men, even when in their individual judgments they have not been altogether convinced of the truth of its doctrines. Indeed, of all the great nations of the world to-day, there is none which would be prepared to go so far as the studies and reflections embodied in this work have led me,—with the single exception of Japan, whose rulers on independent grounds have already made preparations for carrying the doctrine to the full length which is here advocated. And her success or failure in this venture, which must soon be made apparent to all the world, will itself afford a useful object-lesson, whether as supporting or nullifying the speculative basis for her action as here set forth.

LONDON,

Sept 27th, 1906

TABLE OF CONTENTS.

PART I.—RECONSTRUCTION

CHAPTER I

General Introductory On the Dangers of Specialism

CHAPTER II

The Orthodox Political Economy.

CHAPTER III

The Pure Science of Political Economy

CHAPTER IV

The Applied Science of Political Economy

CHAPTER V

On Fixed Capital as Savings.

CHAPTER VI.

A Nation's Assets.

CHAPTER VII.

On Money.

CHAPTER VIII.

The Mechanism of Credit.

CHAPTER IX.

Civilization and the Paradox of Saving

CHAPTER X.

Some Concrete Instances

CHAPTER XI

THE WHEEL OF WEALTH AS A WHOLE

PART II—FREE TRADE AND PROTECTION.

CHAPTER I

GENERAL CONSIDERATIONS ON EIGHTEENTH CENTURY THOUGHT

CHAPTER II

THE MERCANTILE SYSTEM

CHAPTER III

THE PHYSIOCRATS

CHAPTER IV

ADAM SMITH.

CHAPTER V

ADAM SMITH VERSUS THE MODERN FREE TRADER.

CHAPTER VI.

FREE TRADE AND PROTECTION.

CHAPTER VII.

FREE TRADE AND INSTRUMENTS OF PRODUCTION.

CHAPTER VIII.

FREE TRADE AND SCIENTIFIC METHOD.

CHAPTER IX

FREE TRADE AND PERPETUAL MOTION—
ON GOLD AND BANKS

CHAPTER X

FREE TRADE AND PERPETUAL MOTION—
(Continued)
THE FOREIGN EXCHANGES

CHAPTER XI

FREE TRADE AND MORALITY

CHAPTER XII

FREE TRADE VERSUS PROTECTION—
POLITICS AND CIVILIZATION

PART III.—CRITICAL AND HISTORICAL

CHAPTER I

JOHN STUART MILL.

CHAPTER II

ON THE TENDENCY TO INEQUALITY.

CHAPTER III.

THE ACADEMICAL ECONOMISTS—JEVONS, BÖHM-BAWERK, MARSHALL—ON VALUE.

CHAPTER IV.

THE ACADEMICAL ECONOMISTS.

(Continued).

ON INTEREST.

CHAPTER V.

THE ACADEMICAL ECONOMISTS.
(Continued).

ON RENT AND THE STATICAL FALLACY.

CHAPTER VI

THE ACADEMICAL ECONOMISTS.
(Continued.)

GRAMMAR AND MATHEMATICS.

CHAPTER VII.

THE OUTSIDE ECONOMISTS

PART I.

RECONSTRUCTION.

CHAPTER I.

GENERAL INTRODUCTORY. ON THE DANGERS OF SPECIALISM.

IN the present volume I propose to make the attempt to reconstruct the science and art of Political Economy on a new foundation, namely on the basis of Modern Evolution—a reconstruction which will involve a new principle and method, a new image or symbol to express and sum up in a shorthand way, as a mathematical formula might do, the mode of action and interplay of the several factors, a new division and arrangement of these factors, with arguments and illustrations corresponding to them, and a new line of treatment generally; in a word I am to endeavour if possible to supplant the old and crude Ptolemaic Economy of the orthodox systems by what I believe to be a more scientific, harmonious, and developed Copernican one. But as the orthodox Economy, although the despair of the public who for a long time have lost all interest in it as being quite useless for all practical purposes, is nevertheless believed by its professors to be a closed and sealed body of scientific doctrine; and as its latest schools would seem to encourage and lend countenance to this belief by industriously striving to correct the mistaken notions of the earlier Economists rather than to make any attempt at reconstituting its principles and methods on a fresh basis; and as, further, it is unusual for a science in the orderly quiet

course of its development to find itself thus suddenly confronted by any change in its ordinary working theory and principles: I feel it incumbent on me at the outset, and in justice to the reader, to state definitely the reasons which have impelled me to this attempt at a total reversal of its method, principles, and practical policy. These reasons may for all practical purposes be reduced to two. The first is that the science of Political Economy has not kept in line with the other sciences in reconstituting itself on the lines of Modern Evolution: the second is that it has narrowed itself to an illegitimate academic specialism. As for the first of these reasons, namely that the science is not founded on Evolution, its justification can only appear in the body of this work at those points where the absence of that principle will especially make itself felt: but the second reason calls for some word of explanation here, for it will, I apprehend, seem strange to many to be told that objection can be taken to a science on the ground that it is cultivated as a pure specialism. For if there is one word more potent than another with which to conjure if one wishes to secure the interest of the public in any undertaking at the present time, it is this magic word, specialism; and to announce at the outset that it is the work of a 'specialist' is always sufficient to insure it a respectful hearing. Specialism, in fact, is the order of the day in all lines of work whatever, and is demanded by the public as a hall-mark from all those who lay claim to have done any effective work in any province of thought or action. The Carnegie Institute at Washington, for example, which has recently been established for the liberal endowment of all studies that can in any way minister to the advancement of human knowledge, expressly rules out in the published preamble of its policy, the work of all but specialists, in a sentence of condemnation which serving as it does as a warning to all and sundry that none but specialists 'need apply,' might well in its emphatic brevity be inscribed as a legend over its portals;—"No investigator working single-

handed can at present approach the largest problems in the broadest way thoroughly and systematically,"—a sentence which would have ignominiously excluded and disinherited all the great original spirits of all ages and nations—Plato, Aristotle, Newton, Descartes, Bacon, Goethe, Rousseau, Comte, Herbert Spencer, and Darwin, in thought and speculation; musicians like Beethoven and Wagner; the great innovators in Art like Turner, the pre-Raphaelites, and Whistler, religious reformers like Buddha, Jesus, and Mahomet: warriors and statesmen like Cæsar, Alexander, and Napoleon, and would have delivered the world over to a race of critics, commentators, grammarians, pedants, professors, schoolmasters, and the body of miscellaneous specialists generally: all of whom, be it observed, would be found, if searched, to have the image and superscription of one or other of these great ones, or of others like them, concealed in their bosoms as objects of their adoration and homage. For it cannot be too often repeated that the intellectual progress of the world always proceeds from the realm of new *general* ideas surrounding and envisaging the special operations going on in different parts of the field: as the progress of a fighting army on the march does from the general plan of campaign of the Commander; never from the narrower developments, extensions, corrections, or applications of such ideas, however important or necessary, which can operate only within the ranks or interstices of these special operations themselves; as is proved by the fact that in the retrospect it is only the solitary single peaks that are visible along the centuries, never the vast multitude of specialist workers who must have argued, refuted, supplemented, adapted, modified, or commented on them, and most of whom have long since been swallowed up in the night. And who were these great men, we may ask, but the men who of all others worked 'single-handed,' hatching their great schemes in the recesses of their own souls, and not like navvies, private soldiers, or the coral-reef builders, in batches, battalions, or swarms

Now as I am neither a specialist nor the professor of a specialism, it is evident that unless I can succeed in breaking the back of this superstition on the subject of specialisms on the threshold, this book in which I am to attempt to reconstruct a specialism, and that, too, one of the purest and narrowest, would indeed be an impertinence, and might as well never have been published or written: for the backwash of prejudice and distrust with which the majority of my readers would approach it, would of itself be sufficient to rob such new positions as I may seek to establish of any influence or authority they might otherwise happen to possess. In saying this I am speaking not without knowledge of the operation of this prejudice; one of the finest exponents of this very science of Political Economy, and one, too, who has done most to correct the errors and extend the boundaries of the orthodox system from a wider circle of thought, having not so long since been solemnly warned by a distinguished academic representative of the orthodox school, that there was no chance of his ever getting a chair in any of our universities so long as he continued to hold his present views. Indeed this whole question of the nature and value of the different specialisms is of such vital importance for the future of knowledge, that its ventilation here, once and for all, becomes almost a necessity before I can proceed to the demonstrations which are to follow. Not that all specialisms are to be deprecated as hindrances rather than furtherances of knowledge; on the contrary, as we shall see, two out of their three great divisions are entirely fruitful. It is only the third division that is retrograde and unproductive, but unfortunately the different branches of which it is composed, dealing as they do immediately with *human* concerns, the truth of their conclusions is of the utmost practical importance to the world. And it is with the cultivators of this class of specialisms that I propose to break a a lance before starting on the proper subject-matter of this book.

Without further preliminary, then, we may say that, broadly speaking, these three classes of specialisms are firstly, those that are co-extensive with the range of the purely Physical Sciences; secondly those belonging to the Biological Sciences, and the Science of Medicine; and thirdly those dealing with the sciences proper to Human Life itself, and which make up the History of Civilization, such as Religion, Government, Philosophy, Psychology, Ethics, History, and Political Economy, in their various subdivisions and ramifications

Now of the first of these, the Physical Sciences, we may say that their special peculiarity is this, that when their results are verified by the consensus of scientific observers from whom they receive their hall-mark, they can be applied now and here with entire assurance, and can be handed over to the public, and accepted by it in full confidence that it will not be deceived. Such are those connected with astronomy, physics, chemistry, light, heat, electricity, and, in its way, geology, with their thousand-fold applications to the arts, comforts, and conveniences of life. Now the main reason for this is that they each and all work under the sovereignty of some ultimate univeral truth or law which encompasses them like a dome, and which they illustrate and enforce; under some fixed star that presides over them as at once their guide and their destiny; some overlord to whom, like vassals, they return to dedicate their spoils. Astronomy, for example, works under the sovereignty of universal gravitation; physics, optics, light, heat, and electricity, under the laws of the conservation of energy, of polarity, and of the transmission of force; chemistry, under the atomic and now the radio-active theory; geology, under the empirical combination of these, as seen in the agency of fire, water, frost, gas, and wind, in the phenomena of upheaval, pressure, denudation, and crystallisation; and all alike under the supreme immutability of natural law. The reason, again, why these specialisms are always available for use is, that dealing as they do with inorganic matter, they are

subject to mathematical tests and quantitative measurements, and so can be turned as a searchlight, not only on the present, but on the past or future of any object to which they can be applied; differing in this, as we shall presently see, from the purely historical specialisms, which, unless they illustrate some great general law of civilisation, or help in establishing the connecting links of a process of evolution needed to make good such a law, are as impotent for guidance in the present or the future as the vanished years with which they are interred, and when pursued for themselves alone, are as great a pedantry and waste of time and human labour as the resurrection of the bones of the dead.

The reason, again, why these Physical Sciences are not only so fruitful but so progressive is, that although they move across the field in parallel furrows, each more or less independent of the rest, they are all pervaded by the same spirit, and being within easy earshot of each other, can call on one another for help in their difficulties; the chemist calling in the assistance of the physicist; the geologist exchanging notes with the astronomer; and the electrician with both; and all alike with the mathematician, who is ready at a pinch to come to the relief of each indifferently.

And the reason finally why specialism in these physical sciences is so necessary is, that it is on the *invisible* things of the world that the natures of the visible, tangible masses with which we have to deal depend; and unless in this age of the division of labour, bodies of men were set apart, equipped with microscopes, test-tubes, batteries, retorts, and other instruments of precision, to isolate and measure these invisible atoms, germs, ether-waves, electrons, and what not, on which the hidden nature of this opaque and all too solid world depends, the material progress of civilisation would come to an end.

Now it is important to observe in passing that this rich harvest of fruit is primarily due to the genius of Bacon, who was himself not a specialist. In his day, scientific specialists

were still in the main alchemists, astrologers, or magicians, who could no more see a scientific relation in its simple truth and nakedness, and except through such a multicoloured play of phantasms as has never been known in the world before or since—the influence of stars, mystic numbers, figures, and symbols, of cycles and epicycles, of scholastic theology, final causes, and especially the syllogism of Aristotle—than the courtiers in Hans Andersen's tale could see the real nakedness of the emperor, owing to the illusory clothes which their imaginations had woven for him. It was Bacon who transfixed and chased away these phantoms of the night, as the morning sun its vapours, and by sweeping the garrets of the mind of all this mediæval rubbish, and separating definitely the kingdom of Science from that of Theology and Metaphysics, released science once for all from its chains. It is part of the foppery of too many of the younger generation of physical scientists to dismiss the work of Bacon with a wave of the hand, on the ground that from the beginning of time men who wanted to find out anything must have proceeded by the Baconian method of observation, experiment, and induction. Quite true; but by this method only so far be it observed, as it was *directed* by some ghostly demonistic will or theologico-metaphysical preconception as its guiding spirit. And there is no reason why, but for Bacon, the mere scientific specialist, as such, should not have gone on working under the dominion of these and other the like illusions to this hour. For although the work done by scientific specialists *as a body* is of the utmost importance to mankind, there is no reason for thinking that the individual specialists themselves, any more than the pyramid builders, are possessed of an order of mind that would safeguard them from the general illusions current in their time. On the contrary, given patience, minuteness, accuracy, and fidelity (and making exception of the great constructive minds in each department, who map out new provinces, and point to the methods and processes by which their problems are to be

approached and solved), in the minute specialist of the German type, the narrower and more pin-pointed the mind of the observer, the better is he fitted to sift and disintegrate the material placed before him. In an atmosphere of minute specialism like this, indeed, the spacious intellect of Bacon, knowing all measures, would have suffocated, as it did among the waste subtleties and the attenuated logic-chopping of the schoolmen. To imagine, therefore, that he who cleared the intellectual heaven for men, and freed scientific specialism from the overarching dome of illusions under which it was working; that he who like another Moses, as Macaulay has said, pointed the way to the Promised Land, which he, himself, was not to enter, and to the discovery of those far-reaching generalisations under which it now marches so triumphantly; to imagine, I say, that the great Bacon, who was not only the supreme legislator, but the supreme guide and inspirer of all this, is to be challenged on to the public stage to give proof and exhibition of himself, as if he were a mere swordsman, and that, too, by his own rank and file, is as if Buonaparte after his fall should have been challenged to a personal encounter by the privates of his bodyguard whom he had himself led to victory, and is to lose all sense of proportion and even of decency.

We now come to our second class of specialisms, namely, those that deal with Organic Nature—plants, animals, and men—and which are at present organised under the different departments of Biology and of Medicine. Of them, too, we may say that they are all good and fruitful throughout, and that they can hardly be too minutely subdivided for purposes of research. For like the physical sciences, they also work under the inspiration and sovereignty of great over-arching laws—the general Law of Evolution, to wit, with its more specialised form of 'natural selection,' and the laws of the human body as a whole. Into this general menstruum all the specialist workers are baptised and indoctrinated *before*

they set out, and by means of it each specialty is kept in touch with all the rest, so that any new discovery in one department is quickly passed on until it becomes equally diffused among them all; and with this result, that more solid work is now done in a decade than was done in a century, before Bacon released all these specialisms alike from the fetters of theological, metaphysical, and scholastic tyranny. But they differ from the physical sciences in this, that dealing as they do with living things (and no living thing is *as yet* completely explained by any single general law or combination of laws), their results cannot be handed over to the public as absolute truths for its guidance, in the same way as the results of the physical sciences can. The most that can be said is, that they are the most reliable yet known. For it is to be observed that although evolution is an absolutely true *fact* of all life, the particular law of evolution, under which the Biological Sciences are now working, namely the law of Natural Selection, is not, in my judgment, the final and entire truth. I have read most of the works written on the subject during the last thirty years, have ransacked the Natural History Museum at South Kensington, and inspected its record of missing links, have attended year after year the Swiney and other lectures bearing on the subject, by the most eminent of the specialists; and yet whenever I go to the Zoological Gardens, I come away with the feeling that, except in certain broad generalities which have become the common-places of Biology, I am really as far from understanding the secret *inner* cause or causes that have given this vast miscellany of creatures their characteristic peculiarities, forms, and modes of life, as before. As a young man I was, like the rest, immensely attracted by the doctrine of Natural Selection, and with the high reverence for my old masters, Darwin and Spencer, which was their just due, I strove for years to see all things through it, and to paint the world with its colours. But the paint would not stick; for everywhere the recalcitrant facts, like the thorns of a prickly

hedge, would persist in sticking through, and would not take the paint! The same thing happened in a greater or less degree to the specialists themselves. Huxley, the farther he went, the farther he departed from his early belief in Natural Selection as the prime factor in the evolution of species, and the more he became inclined to relegate it to a secondary place: although with his usual honesty and sterling intellectual integrity, not knowing what the really efficient cause of the varieties was, he wisely gave no opinion. And in spite of the efforts of Weismann and his followers to revivify and strengthen Darwin's doctrine by their distinction between 'germ-plasm' and 'body-plasm,' important and necessary as it is, Romanes, and other later observers, the more they came to grapple at close quarters with the facts in their special lines of work, the more they became dissatisfied with the doctrine, until at last they fell away altogether; attributing the facts of variation mainly to "prepotency" and other *internal* physiological factors, as the agencies which kept the great organic lines of species true to their type by snuffing out through ultimate sterility and decadence all variations that fell outside the limits of permissible oscillation. But beyond marking out some of the characteristics of these hidden internal causes, they could give no further explanation of them than that so it stood in the will of Providence or Fate. And now with the gaps in the geologic record on which Darwin himself relied for the full demonstration of his theory, largely filled in, the most eminent palaeontologists and geologists, working on the vast accumulation of new facts that have come to light since his time, and tired of the ineffectual effort to plaster a single formula on the infinite variety of Nature and life, have degraded the theory of Natural Selection to a secondary and subordinate position; retaining it rather as a cause of the *elimination* of the old and unfit, than as a *creative* cause of the new. Fully developed insects have been found as far back almost as the existence of dry land itself; scorpions of as high a type as those of to-day,

and all the present divisions of fishes, as far back as the Upper Silurian; gasteropods in strata where molluscan life was only just beginning; whales in the Miocene; and so on, and, in fact, all attempts to explain the origin of fish, amphibians, reptiles, birds, marsupials, and the higher mammalia by the theory of Natural Selection alone, and without the co-operation of some unseen initiative *internal* agency, are now gradually being admitted to have been failures.

But the triumphs and limitations of this, our second class of specialisms, namely those which deal with living things, will be best seen, perhaps, in Medicine, which, like Biology, has been so rich in fruit during the last generation. The reason why the specialisms into which it is divided have been so fruitful in results is, that owing to the high preliminary training in the *general* Science of Medicine which each specialist has received, and to the fact that each, by means of the medical journals and the constant stream of new text books, is kept closely in touch with all the advances made in that general science, medical specialism has always worked under the guiding influence and direction of the Science of Medicine *as a whole.* And, although that Science is still far from perfect, its advance to a greater and greater perfection proceeds, by means largely of these specialisms, steadily and unweariedly; the knowledge gained through the minute investigation of special organs and functions returning to enrich the general science which deals with the relations of them all, while that in turn stimulates and directs anew the current of inquiry to ever fresh problems in the out-lying field. When I came to London to collect material for my philosophical work, whole regions of what are now the common-places of Medicine were mere blanks on the map. All the finer forms of paralysis and other diseases of the brain and spinal cord, with their symptoms and signs; the part played in the causation of the specific fevers, as well as in other inflammations, by germs; the entire range of antiseptic surgery, which has reduced the death-roll in certain operations

from ninety-five to five per cent.; all this was then a *terra incognita*, and it has all been the result of specialism. And although successful *treatment* still lags far behind (for who can restore an organ destroyed by dissipation or disease, any more than he can restore an amputated limb?), it may truly be said that the *diagnosis* of all the organic diseases which tend to shorten life has been brought in the hands of the great masters of the profession almost to a working certainty. And yet it is strange how little this is recognised by the general public, whether educated or uneducated. The reason, I think, lies in the difficulty often experienced in treating successfully those purely *functional* disorders, which, depending, as they often do, on under or over stimulation of the different parts of the nervous system, too frequently lie beyond the reach either of diet, regimen, or drugs. And, moreover, where the profession fails, the charlatan, the hypnotist, the faith-healer, and the Christian Scientist often succeed, by the one method common to their respective callings, namely by taking advantage of that mysterious power that can be exerted by the mind over the body, and which in some of its most effective forms honourable medical men cannot, or dare not, employ; whether it be the solemn pose of the quack, the testimonial advertisements of the patent-pill man, the suggestion of the hypnotist, or the simple logic of the Christian Scientist who, if you will only grant him that God is good, and that the world was created by God, will prove to you that there *can* be no evil or pain except in your own imagination, and treat you accordingly. And yet if the medical man were to tell his patient this, he would be incontinently shown the door! But the intellectuals are quite as bad as the commonalty in their disparagement of the knowledge of the profession, and none are more easily taken in by some cheap piece of logic-chopping founded on such analogies of the grossly mechanical kind as seem to mirror or parallel their sensations; those suggestions for treatment in particular being peculiarly acceptable which proceed as if some

part of the patient's inside were being dried up as by fire, or were turning over like a wheel, or opening and shutting like a door, or being grasped as in a vice, or extending its roots like a tree, and especially if the irregular practitioner has "seen through it with an eye glance, when all those bungling fools of doctors have failed!" When I first met Carlyle, he described to me in detail the symptoms of his dyspepsia, and roundly asserted that the physicians who attended him, and who at that time were at the top of the profession in London, did not really understand anything about his case. He then proceeded to give me his own opinion, from which, to my amazement, it was evident that he was figuring his stomach as some old tea-kettle, which was so thickly encrusted with fur, that it only wanted something to scrape or dissolve this away, for all to be well with him again! It is said that at the rate at which Christian Science is spreading in America among all classes, it will have over-run half the religious world before the century is out. That is bad enough, but it would seem that the prospect before the medical profession is still worse. A distinguished friend of mine, who is usually regarded as very level-headed, thinks so cheaply of its knowledge, that he undertook to prove to me not long ago, that in less than a generation there would not be a regular practitioner left, as they would all be driven out and superseded by the efficacy of his own panacea—Swedish massage! Now this curious disparagement of the *knowledge* of the profession, and at a time, too, when, as I have said, there is not a really diseased structure anywhere in the body but can have the finger laid on it almost unerringly by one or other of the great masters of the profession, is not only to be found here and there among the intellectual and cultured classes, but seems to be the prevalent, the orthodox belief among them. This is the more regrettable, inasmuch as at the present time, owing to the breakdown of all the old religious beliefs on the one hand, and the suspicion that there is more in the world than mere Scientific Materialism on the

other, it has led to the revival of the cult of the magician, the astrologer, and the diviner, as in the days of the Roman Empire before the triumph of Christianity: with the result that flights of impostors are flocking from all the winds to the great metropolitan centres of the world, scenting their prey. And the remedy is, what? To bring them to a rigid test in the hospitals, with the Press looking on to report the results to all the world. If this were done I for one should have no doubts whatever as to the issue.

And now we may pass to the third and most important class of specialisms, those, namely, which deal with Human Life itself, and which make up the History of Civilisation, including as its great divisions, History proper, Religion, Government, Philosophy, Psychology, Political Economy, and Sociology. Of these we have to report that as at present constituted much of the results of their researches, in the condition in which they are delivered over to the public for its instruction and guidance in life, is as futile, misleading, or false as those of the Physical Sciences are fruitful, reliable, and true. And the reason of this is, that they have not as yet found, like the Physical Sciences and the specialisms connected with the Science of Medicine, any *general Science of Civilisation* under which to work, and by which their labours are to be co-ordinated and reduced to harmony. For as the work of Civilisation has been the result of the *combined* action of all the important factors we have mentioned at each and every stage of the world's history, it is evident, is it not, that you can no more get a broad general truth which you can hand over to the public for its guidance from any one or all of these specialisms taken separately, until they have been co-ordinated and knit together by a general Science of Civilisation, than you can get a general truth of the body from its organs taken separately, until their general action and reaction on each other have first been determined by the general Science of Medicine. Indeed, until this has been done, the more History, Theology,

Philosophy, Politics, Political Economy, and Sociology are kept apart, and cultivated as independent specialisms, and the more subdivided they are, the more futile and unprofitable they become; the more developed and elaborated, the more false are their conclusions: the farther they go, the more do they lose their way; the more important they are, the more dangerous is it to accept their results as our guides in action and life. It is true that until enough material had been dug out to construct a general Science of Civilisation, their labours were entirely beneficial, because absolutely necessary; as the planets and stars had to be observed and classified before the Copernican Astronomy and gravitation could be established. But to go on merely collecting and arranging material after enough has been collected with which to construct a Science of Civilisation, without attempting to do so; or to ignore such a science when it is once established, is as great a waste and futility as to *continue* cataloguing the stars without reference to gravitation, or to go on counting the numbers and marking the positions of old milestones, after the roads have been closed and the entire landscape changed. And this is precisely the condition under which these specialisms are working at the present time And the reason of it is to be found in those historical antecedents which have made each hate or despise the rest, as if they were neighbouring tribes worshipping hostile gods. Between them they have, for that matter, excavated enough material to found a Science of Civilisation as true as gravitation, and as solid in its principles as the theory of the tides; but each is still inclined to rule out of its purview the results of the others as impediments, negations, delusions, or downright perversions of the truth; except, perhaps, in the case of the theologians and politicians, who having to deal with practical affairs demanding urgency, have been forced to co-operate, and, under that necessity which makes strange bedfellows, to lie down unwillingly together! Instead of each calling on its neighbour for help in its

difficulties, as the Physical Sciences do, each digs on patiently in its own particular trench, jealously exclusive of the rest, and receiving their proffered help with a curse rather than a blessing. The Theologians repudiate the conclusions of the Physical Scientists; the Metaphysicians of the Psychologists; and the Sociologists of both. The Statesmen, thinking they can see how the world goes, merely by looking at it through the key-hole of To-day, throw overboard the Historians and the Philosophers indifferently as pedants or dreamers, only to be hooked themselves later on by the cheap bait of some Rousseau, with his Utopian dream of abstract equality, or by the Laissez-faire doctrine of the Political Economists, as if the world were born but yesterday; while the Economists themselves, ignoring alike Morality, History, and Sociology, continue to hug all the more closely their pasteboard "economic man." The consequence is that these specialisms, instead of advancing like an army on the march under the supreme direction of a general Science of Civilisation to co-ordinate and harmonise them, go each its own way, indifferent to the rest, breeding in and in on themselves the farther they go, until in the end, like bacteria, they choke themselves in their own excess; or when all hope of producing anything human or practically useful is resigned, turn scavengers pure and simple, and like white ants, live on the débris of the dead or dying superstitions which it is their function to remove. Little groups of them will be found, especially in Germany, squatting themselves down here or there on some small patch of history, say of ten years' duration, it matters little where or when, and will dig and delve you it until not a scrap of fact is left unexhausted; anatomising it as if it were a dead body, but with little conception of the general trend of the great forces, political, economical, and social, that played through it from the *outside*, and which gave these dead facts all the meaning and importance they had when alive. Now on this point I may claim to speak with some authority, for as it has

been my life's task to try and work out for myself some such general scheme of Civilisation as I have indicated, I have had to make myself acquainted not only with the principles of each of these specialisms, but with all details of importance as well. And I can truly say that I have been condemned to read dozens of books on the History of Philosophy, of Early Christianity, and of the Middle Ages, and at least some scores on General History and Political Economy, besides innumerable special monographs, and (with the exception of the works of the few leading authorities on these subjects), without coming on any single new principle, and on hardly a new and important fact. So great is the waste and futility of these specialisms when not controlled and directed by some general Science of Civilisation as a whole!

It is true that there had long been in existence a number of schemes of Civilisation, and these, too, the products of some of the greatest constructive minds of the century—Hegel, Guizot, Comte, Buckle, and Herbert Spencer. But they all suffered inevitably from defects which rendered them imperfect or nugatory. To begin with, they were all premature: the last of them having been written nearly half a century ago when the specialists of the different departments had not yet excavated sufficient raw material of fact on which these great thinkers could successfully operate. Then again, they either, like Guizot and Buckle, covered only a limited portion of the field; or like Hegel and Spencer made Civilisation depend on laws so general and abstract that they were better fitted to explain the evolution of solar systems than to serve as guides to the specialisms dealing with the complex civilisation of man. And worse still, they almost all fell into the error of the specialists themselves, of investing one or other factor with *positive* importance and efficiency, and degrading the rest to the rank of mere appendages, or even downright obstructions and negations—Hegel making the philosophical factor all, Comte (in his later works) the religious one, Buckle the

scientific, and Herbert Spencer the purely physical one of the conservation of energy; to whom may be added Carlyle, with his apotheosis of the personally heroic and of brute force: the best and most fruitful of all these systems being still, in spite of much gratuitous neglect, the great work of Comte. Now to all these men, owing to their breadth, penetration, and originality, I was deeply indebted: but as the real problem, namely that of determining the part played by *all* the factors as they roll down the centuries together, and of binding them into a living unity, was still imperfectly solved, I was myself impelled, poorly equipped as I was, to attempt it: and some account of the difficulties I met with in this attempt will give the reader a better idea of just how these specialisms stand, than a volume of abstract dissertation. My first serious concern was to find some organon, method, or *standpoint of interpretation*, which should be coextensive with the full breadth of these different specialisms, and with the field of Civilisation to be surveyed (and which, to keep within manageable limits, I was obliged to confine to the ages of written history), and then by means of this, to work out those *general* laws which should bind each and all of the factors into a unity with one another and with the whole. This done, I then had to apply them in detail to the *matter* of the historical specialisms as at present existing; and here I found that although the facts and details had been carefully collected, sifted, and arranged in orderly sequence, they still contained crude and imperfectly assimilated matter which prevented them from being dove-tailed with other specialisms in a single harmonious chain of evolution and development. I had accordingly to draw on each of the various specialisms to remedy the limitations and defects of the others. In the evolution of Greek Philosophy, for example, it was necessary, in order to make it consistent and harmonious, to show the influence of a new *principle of causation* introduced at a certain point from Persian and Hindoo sources. To bring out the inner significance of

Hindooism and Buddhism, again, it was necessary to use Greek Philosophy and Christianity as foils; while to reconstruct the life of Jesus on the fewest and simplest motives, and to separate the truth from the fiction in the Gospel narratives, as well as to get a consistent conception of the Kingdom of God, it was necessary to fall back on the anterior evolution of Judaism, rather than on the later evolution of Christianity itself in which the historians of Early Christianity had entangled themselves. To explain the formation of the New Testament Canon, and the reasons for the selection of its separate books (in my judgment the true touchstone of our understanding of Early Christianity), it was necessary to draw even more freely on Greek Philosophy, Syrian Philosophy, and Judaism, than on the Higher Criticism itself, important as it is; and so on. After the Reformation, when the unity of the Church was broken up, Historical Specialism in its modern sense first made its appearance, and entered on those triumphs in one field after another, which are its abiding glory. In its accumulation of thoroughly sifted historical material of all kinds, and its orderly arrangement and distribution, it showed its most useful and beneficent side, but unfortunately this material, so necessary for severe scholarship, instead of having been first put through the crucible to remove its dross, and handed over to a general Science of Civilisation to be overhauled, co-ordinated, and reconstituted, has been delivered over to the public for consumption, by each specialism, raw from its own particular mine; with results the more false and misleading, the more important they are to society and the State. And it will not be until these specialisms have found some general scheme of Civilisation as a whole under which to work, that they will become, like the Physical Sciences, Biology, and Medicine, fruitful and useful again. It is true, of course, that most of the leading specialists know something of the results of the others in their immediate neighbourhood, but except among the broader minds, this is little more than a

mere penumbra of light, like that of the glow-worm in the grass, extending little farther than their immediate affiliations and surroundings, and not a full complement of illuminants, deliberately lighting up the whole field. But I will go further, and will venture to say this:—that there is no general conclusion which is important to the public at large, and which is the product of any *one* of these specialisms dealing with history, the human mind or human life, but is liable to have its flank turned, and itself shown to be a *practical* falsity, by considerations drawn from this Science of Civilisation as a whole. And further, as I have already said, it will not be until these specialisms have found some such general scheme under which to work, that they either can or will become fruitful again. Any Government or private philanthropist therefore who is contemplating the founding of new Universities for "original research" in these historical specialisms, may well pause and consider; for with the prestige that now attaches to *all* specialisms in the public mind, owing to their triumph in the Physical Sciences, these Universities, if established, would deliver the public over to the despotism of a race of dreamers, theorists, and impracticals, compared with whom the isolated Rousseaus of the past would show as but single locusts to an invading swarm; and the multiplied isolated excavations which they would everywhere throw up along the landscape of knowledge, would, like those coffins of the dead which cumber the Chinese fields, prove permanent obstacles to all true progress. Even as it is, the proposal to add a new academic chair on any large and important subject of human interest, is felt as a nightmare by men of broad general culture and insight everywhere, and adds a new terror to the literary life. When Walter Pater, for example, seeking to make a speciality of literary style by divorcing it from the thought it enshrines, could solemnly announce that the great Plato, who with Aristotle continued to rule the minds of men, Pagan and Christian, for two thousand years, did so

by his style, mainly or alone, surely this note of warning is not premature.

To sum up, then, we may say that the public may trust implicitly the results of specialism throughout the whole domain of the Physical Sciences, because they work under great general laws, like those of gravitation and the conservation and transmission of force, which are of universal validity; that they may trust provisionally the results of specialism in the Biological and Medical sciences, as the best that can be had under existing conditions and at the present stage, inasmuch as they also work under broad general conceptions, like Natural Selection and the Science of Medicine, which, although not the final truth, contain the greatest amount of truth yet known; but that in the specialisms connected with History, Religion, Philosophy, Psychology, Politics, Political Economy, Morals, and Sociology, the public can place no real confidence whatever, until their results are everywhere overhauled and co-ordinated, and these specialisms themselves compelled to work under some generally accepted scheme of Civilisation as a whole.

CHAPTER II.

THE ORTHODOX POLITICAL ECONOMY.

IN the present and following volumes accordingly, I am to make an attempt to reconstruct these distinctively human specialisms, in so far at least as their leading principles are concerned, from the point of view of Civilisation as a whole, or General Sociology, as outlined in the preceding volumes of this series, and propose to devote the present one to the Specialism of Political Economy. I have chosen this course not only because the subject matter of Political Economy follows naturally out of the discussions on General Politics of the preceding volume, but because as it will involve more reconstruction than any other of the distinctively human specialisms—even the dismantling of the existing science down to its foundation—it will illustrate and enforce better perhaps than any other object lesson could have done, the necessity there is for a general science of Civilisation or Sociology, which shall bear authority and dominion over all lesser specialisms included within it, and which shall give point and direction to their special researches—a General Sociology not rigid, final, and immutable, but loose, flexible, and modifiable in turn by these specialisms; much in the same way as the general plan of organic evolution originally propounded by Darwin is being gradually modified by his successors in accordance with the new knowledge that is being constantly

thrown up by the Biological Sciences with which organic evolution is concerned. Should we in this way succeed in reconstructing the science of Political Economy by the help of principles drawn from the studies of Civilisation and Sociology embodied in former volumes, we can then advance with a more lively assurance and expectation of success to those other human specialisms which, like Religion and Morals, although demanding reconstruction from the same point of view, are nevertheless, owing to the passions and prejudices which they arouse, still more or less difficult of access to new and unfamiliar methods of investigation and thought

As regards the form and distribution of the subject matter of this volume, I had originally intended to have followed the course pursued in the preceding volume, and to have divided it into two separate parts, the first critical, the second reconstructive, the one aiming at getting rid of the old economy, the other at substituting a new system in its place. But owing to causes which will appear as we proceed, I found it impossible entirely to separate the critical from the constructive portions of the book; and the consequence is that instead of a straightforward evolution, as of links in a continuous chain, the argument will be found to proceed in a circuitous course like a spiral, returning into itself, as it were, at each stage of its progress, prior to a fresh advance, the critical and constructive parts more or less alternating throughout. Beginning then with the critical portions I shall endeavour in a general way to establish the following positions:

1st,—That up to the present time the orthodox Political Economy of the Schools is neither a pure science nor an applied science: not a pure science because it has excluded altogether from its purview elements essential to the problem of the pure science; not an applied science, because it has embodied in its teachings elements which do not properly belong to it, and which are so local, temporary, or capricious, that they cannot be made

the subject matter of any single scientific specialism at all, unless indeed it be the all-comprehensive one of Sociology.

2nd,—That having cut the subject matter of Political Economy out of the living tissue of Civilisation, with the view of making a specialism of it, instead of putting it back again, to have the life blood of that civilisation stream through it *before* deducing its laws and principles, the orthodox economy has deduced these laws and principles from the particular material only which it has marked out for itself as the subject matter of its specialism; and so its conclusions when applied to the phenomena of industry, which everywhere lie enmeshed in a web of legal and social powers interpenetrating them at every point and from all sides, are not only misleading in this or that particular, but practically misleading in all.

But before we can get fully under way in this demonstration, it is necessary that the different aspects of our problem should be given their proper focus and perspective, in order to avoid that confusion and overlapping of boundaries which has wrought so much mischief in the existing economy. And the first observation I would make is, that Political Economy under analysis ought to disclose as distinguishable features first, a pure Science, secondly, an Art, or applied Science, and thirdly, a Polity; the pure Science being the inner core of doctrine, as it were, while the Art and the Polity form the general material, political, and social framework in which it is embodied, and in and through which it has to work. But as a matter of fact, up to the present time, although the orthodox systems contain a science of a kind, it is neither a pure science nor a true science, inasmuch as it leaves out, as I have said, certain factors essential to the pure science; and the consequence of this, again, is that these systems cannot have an applied science which will be found at once true and applicable

to all stages of industry alike. In this they resemble that system of Astronomy which made a flat earth the centre of the world, with the sun rising and setting, and the planets and stars revolving around it, and which although it answered all the practical purposes of the everyday life of human beings quite as well perhaps as the true system, produced nothing but falsity the moment it was attempted to draw from it deductions as to other aspects of the world. And so with the existing Political Economy. It has never professed that its principles, which had they been parts of a true science, whether pure or applied, would have explained and illumined all industrial régimes alike, were applicable to régimes founded like slavery or serfdom on status, or like the guild or métayer system on fixed or customary wages and rent, or like Socialism where the land and instruments of production are to be owned by the State, but only to the present stage of Modern Capitalism, with its division of industrial society into landlords, capitalists, and labourers, respectively. And it was to the limited body of doctrine bound up with this régime that the orthodox economy attempted to give the semblance of a pure science, by postulating it as made up of a world of 'economic men' energizing freely in a perfectly fluid medium of laissez-faire, free competition, and free contract.

But it was a semblance only; for, as we shall presently see, some of the essential factors being entirely left out of the problem, the presence of the rest only served to lend a false air of security to conclusions based on maimed and incomplete premises. The truth is there does not exist as yet in the orthodox Schools any pure science of Political Economy at all; there are at best only descriptions of a number of games of political economy, as it were, in which, as in games at cards, the different factors have different values according to the particular phase of industry on which the game is being played; land, labour, and capital having one scale of value in a régime of slavery or serfdom, another in the guild or métayer system,

a third in modern Industrialism, a fourth in Socialism, and so on. And bound up with these, again, are various policies, as of Free Trade or Protection, of stimulating the population or repressing it, of entailing the land or of freeing it, of enlarging the size of holdings or restricting them, of lengthening the working day or shortening it, and the like.

And yet, pervading all these, there must be somewhere a pure science of Political Economy, if we could but dig it or distil it out, a science which even if it contained as few principles as could be written on your thumb nail, would nevertheless dispose of all the complexities and contradictions of the subject; in the same way as the law of gravitation does of the irregular movements of the heavenly bodies, or as the mathematico-physical laws of strains and pressure determine the solidity and safety of bridges and other engineering constructions in which they are involved. And the test by which we should know that we had found this pure science of Political Economy would be, that it would explain and interpret not merely the particular stage of Modern Capitalism, but every other stage in the development of Industry as well, whether past or future; that it would afford us a touchstone by which we could clearly separate in any complex piece of industrial policy those effects that are purely economic in character from those that are due to extraneous powers and forces, whether political, legal, or social; and that instead of running counter to the methods and expedients of practical business men everywhere, it would be found to be everywhere in harmony with them. But as I have stated that the orthodox Economists, owing to their neglect or suppression of certain factors essential to the problem, have neither definitively formulated nor implicitly embodied this inner core of pure science in their teachings, it would seem incumbent on me to open the series of demonstrations in this volume by a direct attempt to supply this desideratum, as the necessary basis and preliminary of all that is to follow; and this course,

accordingly, I propose to pursue. But before doing so, I feel I ought to apologise for the somewhat dogmatic confidence with which I have disparaged the results achieved by the orthodox Political Economy, in the face of its unbroken tradition and evolution, and of the illustrious names that have contributed to it, and in so many ways adorned it. And yet when I reflect that of all the accredited specialisms it is the only one which having entered on its career with the highest hopes and credentials, even to the point of having reversed or modified the legislation of the foremost nations in the world, is now, in the main principles at least of its teaching, contemptuously rejected by the thoughtful general public as a species of perpetual-motion scheming, useless or utopian, I feel that no other course is open to me. My excuse for this temerity will, I trust, be found in my making the course of the demonstration so clear and connected, that any flaws or fallacies either in the whole or in the parts will be at once apparent; and so no ultimate injustice will be done either to the orthodox Economy itself, or to the many distinguished men who have been and still are identified with its teachings.

CHAPTER III.

THE PURE SCIENCE OF POLITICAL ECONOMY.

THE aim of a pure science of Political Economy, as distinct from the mixed form of it which is the subject-matter of the existing orthodox treatises, is to find such a formula, symbol, or abstract expression for the movements involved in the process of industry as shall form a solid foundation for the applied science of the same; a foundation on which the applied science can build itself up as a reliable working scheme for increasing the wealth of the nation and of the world. For although this abstract symbol, and the abstract corollaries that immediately flow from it are, as we shall now see, both simple in themselves and few in number, nevertheless without them, as without the law of gravitation in astronomy, there could be no reliable pathways or finger posts that would enable us to find our way through the perplexing mazes and the wheel-within-wheel complications of industrial phenomena. Without further preliminary then I shall now proceed to exhibit the character of this central abstract symbol, and of the way in which its separate aspects integrate themselves into a unity; leaving to succeeding chapters both the differentiated aspects of it, and their application as a critical organon to the successive doctrines of the orthodox schools, as they come singly or in groups under review.

To begin with, then, we may say that the essential factors

involved in the phenomena of wealth, and for the relationship between which some abstract symbol or formula must be found, may all be reduced to four, namely, Production, Consumption, the powers of Nature, and the powers of Man. And the first point we would notice is that the relationship between the first two factors is always the same, namely of production passing into consumption, consumption again into production, that in turn into consumption again, and so on continuously and without break or pause, like a revolving wheel. And this continuous circular movement, we must further figure to ourselves as taking place in a medium thick with powers of Nature of all kinds and on all hands—wind, water, soil, steam, electricity, and the like—which it is the function of our fourth factor, the powers of Man, to yoke and harness to his service in the process of keeping the circular double-sided wheel of production and consumption a-going. If this be true, it would next appear evident that the processes of industry are processes of wealth *re-production*, and not merely processes of *production* as separate isolated acts, inasmuch as after every act of production an act of consumption must follow before production can start forward again; in the same way as the parts of a running wheel that are in the air must come round in turn to the ground, before there can be any further progression. And as the movement as a whole is a continuous progression along the highway of time, this double-sided act of the production and consumption of wealth differs from the one-sided act of production alone, with which the orthodox economists have concerned themselves, as the progression of a carriage wheel differs from that of a cripple hopping along on one leg. I am aware of course that it makes no difference *how* the ground is covered in the process of wealth production so long as it *is* covered; in the same way as it makes no difference in the sequences of day and night, whether the earth goes round the sun or the sun round the earth. The difference only appears when we proceed to make logical deductions from

the symbols with which we start, as, for example, when the orthodox economists starting out with their central presuppositions of the 'economic man,' laissez-faire, absolute freedom of contract, and free competition, proceed to deduce from them the fundamental laws of their science—'fundamental propositions' concerning capital, profit, rent, labour, population, foreign trade, and the like. And then it is found that instead of deducing these laws of the increase or decrease of wealth from the symbol of a revolving wheel of production *and* consumption, they have deduced them from the symbol of a rod or stick of production alone, broken up into isolated pieces of varying lengths, and joined end to end from day to day, week to week, or year to year, as the case may be, to form not a continuous unbroken line of wealth production but a chopped and divided one—a procedure which, as we shall see, parallels at every point the procedure of those Greek philosophers who with Zeno insisted on regarding a line as made up of separate points lying side by side, and which involved them in all the fallacies of the flying arrow; of Achilles and the tortoise, and the other paradoxes familiar to the students of Greek philosophy. But of this more anon. What we have to make sure of here is that our symbol of the revolving wheel has not merely *points of analogy* with the true symbol on which a pure science of political economy is to be based, but is in every particular *identical* with it; so that the laws and 'fundamental propositions' mathematically deducible from the nature of a revolving wheel may be transferred bodily to the phenomena of wealth production in all its aspects, and will be found to be mathematically true of them as well.

The first point of identity then which we would note between a mechanical wheel and the wheel of wealth is, that just as the two separate halves or aspects of a wheel are so rigidly bound together that the one side cannot be slowed or accelerated without slowing or accelerating the other, so too it is with the movement of wealth reproduction, where any brake

put on the side of consumption is immediately transmitted to the side of production. For who will go on producing unless someone somewhere goes on consuming, and consuming precisely to the extent of the production? If what is produced were not consumed it would go bad and turn mouldy or sour, like food and drink; or rot or become worm or moth-eaten like clothing and furniture; or fall into ruin and decay, like buildings and dwelling houses. On the other hand, were the things produced such as defied time, like the pyramids; or lasted a long time relatively, like well-built roads and bridges; or improved by time, like spirits and wines; or could be stored for a time before being used, like corn, or timber, or other raw productions of the soil; or are not to be estimated in terms of time at all, like works of art and genius; they must one and all be consumed, in the economic sense of the term, else on the ensuing revolutions of the wheel they will cease to be produced. On the other hand, again, when the consumption side of the wheel is stimulated for any reason, as from good harvests, easy credit, high wages, or business prosperity generally, the production side of the wheel is quickened to keep pace with it; so that everywhere production must keep time and pace with consumption, and consumption with production, as one side or aspect of a wheel keeps time and pace with the other. Had what is being consumed not been produced by human agency at all, but descended from the clouds like manna, and in unlimited quantity like air or water, it would of itself fall off the wheel of wealth, and form no part of the pure science of Political Economy. On the other hand, were it intercepted, 'cornered,' and monopolised, either by individuals or classes, so that it commanded a price, and to that extent slowed the movement of the wheel on the side of consumption, it would be a subject for politics and legislation to deal with, but would form no part of the pure science of Political Economy.

Again should the obstruction appear in the medium of the powers of Nature and of Man, in and through which this

double-sided process of production and consumption functions, as for example when a particular kind of requisite human skill is not for the moment available, or when the world is waiting for some invention that shall yoke the powers of Nature to the aid of Man for the production of an article for which the market is practically unlimited, as for the cottons and woollens of England before the invention of the steam-engine, the spinning-jenny, the power-loom and the rest; in all such cases the obstruction caused by the deficiency of skill, or involved in the use of hand-labour instead of machinery, will act as a brake on the *whole* wheel, and will slow it in proportion to the degree or amount of that obstruction, precisely in the same way as a deficiency of motor power at any point where it is wanted, will slow at every point the movements of a mechanical wheel. The wheel of wealth, again, will also be slowed by all difficulties of transport at whatever points arising, as a carriage is by the roughness of the roads over which it runs.

The second point of identity between the wheel of wealth and a mechanical wheel is, that just as the distance covered by a running wheel in a given time is in proportion to the speed of its revolutions, so in the wheel of wealth-reproduction, the increase of wealth is also in proportion to the speed of its revolutions in a given time, or, in other words, to the quickness of the 'turnover,' as it is called; the number and rapidity of the sales of goods over the retail counters of the world determining the number and rapidity of the looms that are at work in producing them, of the soils that are cultivated, of the mines that are opened, of the ships that are launched, and of the railways and bridges that are built.

From all of which it would appear that the symbol of a revolving wheel is the natural symbol of the reproduction of wealth, and that the laws of the increase or decrease of wealth, as well as the immediate deductions therefrom, must be identical with, and so be transferable from the mathematics of a mechanical wheel to the wheel of wealth and the science of

Political Economy. But it must not be forgotten that it is only with the *pure* science of Political Economy that we are here dealing, and that it is only in this pure science that the identity of the laws of a mechanical wheel and of the wheel of wealth holds good. For it is only in pure sciences, like the mathematical, that the symbols, the conditions, and the presuppositions are all assumed to be ideal to start with. In the case of the mechanical wheel, we assume that its sides or aspects are equal and evenly balanced, that it moves without friction in a homogeneous medium, and that the powers that act on it are unlimited, and available to any extent on demand. And so, too, with the wheel of wealth; we assume that consumption and production are equal and opposite and self-balancing; that all the factors are unlimited, elastic, and free, so that when one is increased for any reason the rest may be relied on to keep pace with it; production to keep pace with consumption, through the powers of Nature and of human skill being always present and ready to be drawn on by discovery, invention, organization, machinery, and the rest; consumption to keep pace with production, by such distribution of wealth and purchasing power as shall permit of it; so that all alike, production, consumption, powers of Nature, powers of Man, organization, invention, machinery, and transport, shall keep time and step together.

CHAPTER IV.

THE APPLIED SCIENCE OF POLITICAL ECONOMY.

BUT there is one essential difference between the laws of movement of a running wheel and the laws involved in the production and reproduction of wealth, and before we can satisfy ourselves that this symbol of a wheel can be transferred in its entirety to the wheel of wealth, we must investigate the meaning and implications of this point of difference. It consists, in a word, in this, that whereas the wheel of wealth is alive, as it were, and self-moving, animated and kept a-going, as it is, by living human beings, a mechanical wheel on the contrary, gets its motion from *outside* itself. Not that this will make any difference to the pure Science, or to the laws of the respective wheels as such, just as it makes no difference to a locomotive engine whether its motor power comes from the steam inside its own boiler, or from a push administered from without, provided always that the amount of power applied is the same; for its wheels, following their own laws of movement, will run precisely as far before stopping and no farther, in the one case as in the other. It is only when we come to the Applied Science of Political Economy, that is to say, to where the pure Science has to be applied to actual economic wheels unequally balanced at this point or that, that the distinction becomes of vital importance; as for example when

it has to be applied to nations some of whom have large productive capacity, as fertile soil, human skill, energy, and inventive capacity, but have no transport facilities for carrying their products either to their own markets or to those of foreign nations, as in America before steam-power and railway communication opened up the West; or again where the Home Market is restricted, as in the slave States of the South before the cotton mills of Lancashire afforded an outlet; or where there is much acquired human skill of various kinds but neither Science, nor organising initiative nor machine production, as in India and the East; or where there is a sufficiency of productive powers, but no effective power of consumption to create a demand for the produce, owing to the mass of the people not being allowed to reap the fruits of their labour, as in the slave cultivation of the Roman Empire, or indeed in all agricultural countries where the peasants are exploited by despotism or unfavourable legislation, as in France before the Revolution, in peoples under Turkish rule everywhere, and in Ireland before the passage of the Land Acts, and so on. In all these cases the national wheels are lop-sided, as it were, economically obstructed, maimed and imperfect; and it is because we must look to the applied science of Political Economy for remedies, that it is of prime importance to determine at the very outset, where or in what aspect of the self-moving wheel of wealth the motor power resides. For just as in the case of a paralyzed limb in the human body, if we are to apply our remedies with discretion and success, we must first of all ascertain whether the obstruction is in the limb itself or in the motor centres of the brain—otherwise, as is so often the case in the practice of quacks, we should find massage or electricity being vigorously applied to the limb, when the seat of the mischief is a blood-clot in the brain substance—so, too, is it with the applied science of Political Economy, where the first question we must answer is;—In which of the four fundamental and distinguishable factors of

wealth production (all of which are in their several ways essential elements in the process) does the motor power specially reside? Is it in Production, or in Consumption, in the powers of Nature, or the powers of Man?

Now the orthodox school of Economists from the days of Adam Smith down to our own time has, owing to historical causes of which we shall see the significance in later chapters, always fixed the motor power from which wealth accumulation proceeds in the act of Production itself; and accordingly their one prescription for any falling off of trade or slowing of the wheels of industry, has always been, to go on producing more and yet more, leaving the consumption to take care of itself; on the ground, as Mill has it, that there will always be found in the world people enough and with desires enough to consume all that can by any possibility or likelihood be produced. Indeed had this not been the central core of their teaching, the orthodox Economists could not have ignored in their more recent works, as they have done, the assaults made on this very position by economists like Mr. Gunton, Mr. J. M. Robertson, and Mr. Hobson; any of whose arguments, it may be remarked in passing, ought, if there is any virtue in human reason, to have given the *coup de grace* to this absurdity at any time during the last two decades. It is quite true that you can let Consumption take care of itself, if people can get for nothing what they have the capacity and wish to consume, or if you can always feel sure that they have the wherewithal to pay for it. But that is precisely the point. Do the orthodox Economists imagine that the world could be counted on to carry off all the enormous and ever increasing yearly output of products, if they had to do it on the wages of Russian serfs, of Turkish, or Irish, or Hindoo peasants, of distressed needlewomen, or of the sweated tailors of the East-end of London? And if not, why have they ruled out from the original data of their Science this enormous and all important factor of Consumption, with the wide disparity of degrees in

which it can be indulged according to the wages and incomes of men? as if, indeed, Consumption always attended and followed close on the heels of Production as its lackey. They might as well rule out from the human organism the stomach and other organs of consumption, retaining only the brain, the arms, and the hands and then assume that these latter, the organs of production, will still go on working, without the former, the organs of consumption. The truth is that if Production and Consumption keep pace with each other, as indeed they do, and must do, in the *continuous* movements of a wheel of wealth reproduction, it is not because consumption can be relied on to keep pace with production, but that the production adapts itself to the consumption—quite a different matter and one which if neglected would land us in all the practical impossibilities involved in working with 'the cart before the horse'! The question is not what capacity or desire men have for consuming in the abstract, but to what extent their wages and incomes will permit of it in actual fact and in the concrete. And if we were right in contending a few pages back that it is the number of sales over the retail counters of the world that determines the number of factories, mills, and workshops that are kept running, of lands and mines that are opened, of railways and bridges that are built, etc., that alone ought to have been enough to settle once and for all where the motor power in the wheel of wealth resides, and further, if these retail transactions differ in every nation from year to year and generation to generation, that again ought to prove conclusively how fatal it must be for any system of Political Economy to deduce its laws and fundamental doctrines from a set of primary data in which this all important constituent factor, Consumption, is entirely ruled out. It is only another variant on the old and hackneyed illustration of the play of Hamlet with the part of Hamlet himself left out. For not only is Consumption the soul and animating principle that urges forward all the other factors engaged in the production

and reproduction of wealth, but it is the *controlling* factor as well, the factor that sets the pace to all the rest; just as in the animal body it is the persistency and urgency of the appetite which determine the efforts that will be made to satisfy it. That it is the controlling and limiting factor is seen also in the fact that it can, like the power of the Tribunes of the People in the old Roman Commonwealth, veto and arrest the motions and actions of all the other powers concerned; for if, as we have already seen, things are not consumed, or likely to be consumed, they will cease to be reproduced: and it is for the solution of the problem of wealth *reproduction* and increase, it must be remembered, that an applied science of Political Economy is wanted, and not for mere production as such, left, as it is by the orthodox economists, like a foundling, to such casual chances of consumption as may be available to carry it off.

The first principle then which has to be added to the pure science of Political Economy to turn it into an Applied Science is, that both the motor and the controlling factor in the wheel of wealth have their seat in that one side or aspect of it which we have distinguished as Consumption; or, in other words, it is to the relative largeness of the share of wealth produced which falls to the great masses of the population in their capacity as consumers that we must look if we are to put the greatest possible pressure on all the available powers of Nature engaged in production—on wind, water, steam, electricity, etc.—as well as on the powers of Man, his invention, organization, division of labour, and what not. And the reason that this pressure is so effective not only in reproducing what is being continually consumed, but in adding so greatly to the amount of that reproduction, is, that all these powers of Nature, and of human invention and organization, are ready and waiting (if we will only reach out our hands to them and grasp them), to add their immense economic powers to the limited physical powers of Man. If, for example, the effective demand for

consumption is so great anywhere that the spade and the hoe, the wheelbarrow, the horse and cart, and the spinning wheel, are not able to keep pace with it, men's inventions are at once stimulated to seek for devices which shall secure more effective aids; and presently some one comes along who puts a little water into a boiler and converts it into steam, or invents an electric engine, or a steam plough, or a power loom, or a locomotive and railway train, when lo! he will find that these will reproduce for him in a given time a thousand times the quantity of economic wealth (after all the labour spent in making them is deducted) that was possible before. But the point I wish to emphasise especially here is that unless the market for consumption is large enough to carry off this excess of wealth production, these machines will either not be invented, or if invented will not be used. No one, for example, would either seek to invent or to use, say a steam mowing-machine if it were merely for the purpose of cutting the grass on the lawn in front of his house, when a scythe or ordinary hand mower would do practically all that was wanted, and at less cost. This then is the first principle or law of our Applied Science of Political Economy, namely that it is to the *extent of the market for Consumption* that we must primarily look for the increased reproduction of wealth.

And now in what respect, it may be asked, does this doctrine differ from that of the orthodox Economists? In this, that whereas our doctrine ascribes the increase of wealth to a *positive* power of productiveness residing in those powers of Nature which are so superior to our own, and which the demand for consumption calls forth as gratuitous gifts to Man, powers whereby from a single seed a hundred may be made to grow, or from a new machine a thousand articles of wealth may be turned out with the same time and labour as one before: the orthodox Economists on the other hand ascribe this increase to a *negative* element, namely to the amount that can be *saved* out of former wealth-production, owing to the wage earners costing

less to feed and clothe them than before—before, that is to say, these inventions had cheapened their articles of living. Mill, in particular, made himself almost merry over the idea that the extent of the market for consumption could in any way increase the wealth from which either an increase of profits or of wages could be drawn. He says definitively that 'to popular apprehension it seems that demand, customers, a market for the commodity, are the cause of the gain of capitalists.' But he hastens to add that this is an error and that, on the contrary, 'the cause of profit is that labour produces more than is required for its support.' In other words, to revert to our original symbol, the cause of the increase of wealth, according to Mill, is to be found in the fact that of a given rod or stick of wealth *already in existence* a less relative amount has to be cut off to feed the wage-earners and labourers than before, whether your unit of time be a week, a month, or a year; and so, a larger quantity of available wealth can be carried forward and added to the produce of the succeeding week, month or year. But the truth is that far from labour producing more than is required for its support, Man, of all animals, without the aid of those powers of Nature which he commands through his invention and tool-using capacity—as of slings, bows and arrows, fish-hooks, boats, weapons of defence, and so on—would be the quickest to starve and be devoured. So far then from the increase of wealth being due to the fact that 'labour produces more than is required for its support,' it is due on the contrary to the fact that Man, when stimulated by the pressure put on him by his desire for consumption, can by appropriate inventions call to his aid the powers of Nature as a free gift. Now seeing that in actual fact it is owing to these free gifts of the powers of Nature that labour, as Mill says, produces more than is required for its support, it may seem captious and hypercritical to dwell on this difference;' and so indeed it would, if we looked merely at the actual result; in the same way as it is immaterial

whether we regard ten as the result of fifteen minus five or of five plus five. But it makes all the difference in the logical deductions that are to be drawn from these respective symbols. It makes all the difference whether the increase of wealth is due to a *continuous* positive addition of production *and* consumption, growing like a snowball as it rolls, and throwing off like a new machine double the quantity of product of an old one in a given time; or whether it is due to a negative addition of production *minus* consumption, from which as from a miser's hoard the more that can be saved in one year the more will be added to the wealth of the next. It is the difference between putting your talents out to use for a continuous increase, and putting them in a napkin and trying by saving to make them last as long as possible. In the one case the laws of Political Economy will be deduced from the dynamics of a wheel of production and consumption, where the amount of wealth thrown off by it will depend on the number of its revolutions in a given time; in the other case these laws will be deduced from the statics of a stick which adds to its length each year by the amount it can save from the preceding year, but where the fatal element is involved that the additions become less and less as time goes on, inasmuch as the more that is saved one year, the less will be required to be produced the next, and so, too, in the next and next; while if it is still produced but not consumed, it will moulder and decay and be relegated to the dustbin of wasted human effort. And the result of it all will be, that your rod of wealth which was going to be like the tree which the child saw no reason should not go on growing and growing till it went out of sight into the sky, or like the conjuror's rod which divides and divides until the pieces laid end to end seem to stretch out to infinity, will on the contrary be found to be like those roads in Western America described by Emerson, which opening out in wide expanses and magnificent unending vistas were discovered when tracked far enough to 'end in a squirrel track and to

run up a tree!' Now, that I am not misrepresenting Mill, whom I have taken as the typical Orthodox Economist for my purpose here, may be seen from definite pronouncements of his in other passages, as where, for example, he says that 'it is not the mere opening of a market for a country's production that tends to raise the rate of profits:' or again, that even where this opening of markets 'makes room for more capital at the same profit, it is by enabling the necessaries of life or the habitual articles of the labourers' consumption to be obtained at a smaller cost.' Here then you have the difference between us in a nutshell. Mill's conception is evidently that of a rod or stick of wealth, whose increase will depend on as little as possible being cut off its end for consumption at each remove; and not on the movements of a continuously running wheel, where the increase will depend on the number of its revolutions in a given time; that is to say, on the amount of *saving* in proportion to the possibilities of production, not on the amount of *consumption* in proportion to the possibilities of production—a *toto cœlo* difference in the very fundamentals from which all the laws and principles of Political Economy are to be deduced; and in reference to which I will only say in passing, that should the Orthodox Economy prove to be the true system after all, it will be the only instance in recorded thought of a true Science being able to sustain itself on a negation as a foundation.

If then the first principle of our Applied Science is that Consumption and the extent of its market is not only the self-moving but the controlling factor in the wheel of wealth-reproduction and increase, and if our second principle is that this increase is drawn from the surplus aid gratuitously rendered by the powers of Nature when yoked to the wheel of wealth by appropriate discoveries and inventions, and not from the mere physical labour of man; we may now advance to our third principle which is, that the very savings which play so important a part in the first principles of the Political

Economists, could not possibly come out of mere Production alone, as they contend, but must come out of a wheel of Production *and* Consumption combined. But as this will open up some important collateral principles which are necessary to our further advance, it will be necessary that the question should be carefully and thoroughly discussed. It has indeed been already thoroughly discussed, and in my judgment settled, by Mr. Hobson in his various economic works, but as these works have been more or less ignored by the orthodox Economists, I must make another attempt to raise the question in my own way and from my own point of view.

The problem, then, which we have to discuss is:—Whence come the savings from which the increase of wealth of one man relatively to another, or of one nation relatively to another is built up? Do they come from mere Production as such, as, for example, from so much corn or wine, or meat or coal or iron or clothing, or what not, produced it matters not how, and left to take care of themselves afterwards as best they may, but from which a certain portion, the least possible, is set aside for immediate consumption; or do they in actual fact come from a double-sided process in which the amount of actual consumption is as *definite* and important a factor as the mere production; a constituent element, in short, necessary to the Science, and which cannot be dropped, suppressed, or otherwise shoved aside, without entailing endless fallacies in every deduction drawn? Or, to keep to our original symbols, do savings come out of some original stick or stock of wealth-products, from which more or less has been lopped off for individual consumption, the remainder being carried forward as savings increasing from year to year accordingly; or do these savings come, like the sparks thrown off a grindstone from a continuously revolving double-sided wheel of production *and* consumption, where what is produced must be consumed (not saved) before the savings can emerge? Now, although to the man in the street it is certain that there can be no

savings without consumption, to the Orthodox Economists it is equally certain (and they lose no opportunity of proclaiming it) that they come out of Production as such alone.

To begin with, then, we may say that the mere statement that there can be no saving from commodities that have been merely produced, ought of itself to be a self-evident proposition. For if these commodities could all be gathered into a heap, and you had to save as much of them as possible, either they would moulder and decay if they were articles of daily consumption, or if they would keep a while, like corn or wool or cotton not yet converted into articles of immediate consumption, the more that was saved of them and the longer you tried to keep them, the more would be your loss in storing and warehousing them. Something more, then, must happen to them than their mere production before any savings can be got out of them. And what is this? Clearly, that all alike, whether raw materials or articles of immediate consumption, must be *sold*, that is to say *consumed* (for no one would be foolish enough to buy them if they did not intend to consume them) before any savings, in the economic or any other sense of the term, can accrue. In other words they must actually be put on the wheel of wealth to be carried round its full circle to that part of the wheel where they are taken off again and actually eaten, or otherwise consumed and destroyed, before anyone concerned can be said to have saved anything by their possession. If they are merely produced, and by any caprice of their owners are not put on the wheel, they remain mere 'dead stock,' that not only cannot be saved, but can have no economic value whatever, whether as 'value in use' or 'value in exchange,' and so exist as human aberrations, the subjects of Psychology, but have no place in a Science of Political Economy. Or, to put it concretely, landowner, farmer, mine-owner, manufacturer, wholesale merchant and retailer, must all alike wait until their products are taken off the wheel by being sold, consumed, and as such destroyed, before any one of them can save anything

out of what they have produced. For if their products are not sold, far from saving anything by this series of transactions, each and every one of these various producers will lose all. It is true that one or more of them may have received ready cash or bills for their products before their goods were sold by the retailer, and so have made themselves safe, but if the retailer in turn does not sell them, and so they are not consumed and destroyed, the result will be what? This namely, that neither farmer, mine-owner, manufacturer, nor wholesale dealer will get another order from the retailer. They will have had their cake and eaten it, and now their turn will have come. For the goods they have produced in anticipation of a renewal of orders, and which are waiting to be put on the wheel, will never get there, but will lie on their hands till they moulder and decay. The mere fact that they have been producers will not help them, and as for getting savings out of these products—not savings but dead loss all round will and must issue. Now I have selected this single file of economic producers merely as illustration of my argument, but all we have to do to make it correspond with the full complexity of the economic world is to multiply and expand them until every variety of manufacturer, middleman, and retailer is embraced in our purview; and then to put all these producers with their commodities and services on the wheel of wealth together; not in serial order, but coming and going together as it were, like the generations of human life, where births and deaths alike occur at all hours, and yet the great moving mass of humanity itself keeps on its steady course unbroken. But our single file illustration will have sufficed to show that savings can only come out of products *after* they are sold or consumed; in other words, only out of a continuous wheel of production *and* consumption, and not out of a rod or stick of mere production alone. And this brings us flush on a paradox which the Orthodox Economists have shirked through not daring to grasp their nettle firmly enough—the paradox namely that

products must die and be destroyed economically before anything can be saved out of them, like that old paradox of the seed of corn which if it abideth alone has no increase, but if it fall into the earth and die, bringeth forth much fruit. Now I admit that at first sight it seems strange that a product must first die and be extinguished before savings can come out of it, and I am not surprised that the Orthodox Economists should strain at it, but first or last they will be obliged to swallow it, and to so enlarge their economic categories as to embrace it, if the laws and principles of their Science are ever to correspond with reality. For in what, we ask, do these savings which play so important a rôle in the orthodox Economy consist? They are not part of the products themselves, for these, I repeat, will not keep; they must come, therefore, out of something that will retain its economic value unimpaired into the *future*. What, then, is this something? It can only be that thing, however imperfect, which all nations have agreed to accept and honour as their standard in all business transactions, namely gold and silver, or their equivalents in credit obligations which are upheld by all the force of law and public opinion, and which are always and at any moment translatable into gold or silver, more or less discounted of course according to the strength of governments to enforce them if they are transactions between individuals, or the good faith of these governments in meeting and redeeming them if they are between nations. As nothing, then, but gold or its credit equivalents can be saved and, other things being equal, be transmitted unimpaired into the unknown future (with one exception which we shall see presently) the Orthodox Economists, even when their logic was running away with them in an opposite direction, ought, I venture to say, to have seen what is a commonplace with every business man, namely that all economic products as such must be convertible into gold or its equivalents, in other words must be *sold* and *consumed*, before savings can accrue. And so we come around

again to our starting point, that it is only from a continuously revolving wheel of production *and* consumption that saving, as an economic idea or fact, is possible, and not from a rod of mere products alone. I am of course aware of the difficulties raised by the orthodox Economists against accepting gold or silver as the final standard of value in business transactions, on the ground that these, too, vary in their value relatively to other things from time to time, according to the amount of the precious metals thrown on the market by the discovery of new mines, or from other causes. But this, in my judgment, is a mere pedantry. They might as well object to Homer or Shakespeare being the standards and touchstones by which to estimate the grades of literary excellence, because the one sometimes nods and the other is not always up to his highwater mark; or object to the legs as the organs of human locomotion because they vary in their efficiency according to the state of the other organs of the body. The truth is that gold is the best standard *at present* available, and as the world of men have agreed to accept it as ultimate, and to take chances, in their bargains, of its possible future fluctuations of value, the fact of these fluctuations no more impairs the truth of our principle, that all savings whatever must come out of it and be convertible into terms of it, than if its value always remained as fixed and steadfast as the pole. And if savings can be only made in it or its convertible equivalents, it follows that they come not out of production alone, which is only half the process, but out of production and sale, in other words, out of the double-sided wheel of production and consumption.

CHAPTER V.

ON FIXED CAPITAL AS SAVINGS.

AND now for the exception which I have made to the general truth that it is only out of gold or its convertible credit equivalents that savings can arise. The reader will already have guessed where we are to look for it from what has already been said. It was our contention, it may be remembered, that savings did not arise, as Mill thought, because labour could produce more than was necessary for its support, but that they arose out of the free gifts which the powers of Nature confer on Man over and above the cost of the labour spent on the soils, machines, or processes in which these powers reside. If this be so, then it must follow that all forms of 'fixed capital,' whether of a positive or negative kind—all soils, mines, machines, factories, railways, canals, roads, bridges, ships, tramways, warehouses, etc., may justly take their place with gold or its credit equivalents as forms of wealth out of which savings can arise, inasmuch as without them less consumable wealth would be produced. Like gold and credits, they too, have a relative *permanence* when wear and tear is provided for, and can always be depended upon to confer both on their owners and on the nation a free gift of wealth over and above the labour spent on producing and maintaining them. They are like national banks in which a nation may always invest its savings, and can always be

depended upon to reproduce themselves with interest; and against them credits may be drawn just in the same way (although always discounted more or less of course) as against gold or silver themselves. Now it is necessary to observe at this point that the savings either of a man or a nation constitute in general no part of the wealth of the world, in the sense in which wealth is identified with that which is desired and enjoyed for itself alone. Gold and silver cannot be eaten; bank notes and credit bills can neither be eaten nor worn, nor can they afford either warmth, protection, or shelter; neither can the soil or mines or fruit trees; and less than all can the powers of Nature embodied in fixed capital, as in machinery, railways, canals, bridges, roads, merchant ships, etc. It is true that gold and silver may be worn as ornaments, and, what is still dearer to the human mind, may be used as objects conferring rank or distinction on their possessors, but when so used they can only be counted in the category of savings because it so happens that they can at any moment be melted down and converted into currency. As for precious stones, again, used for purposes either of distinction or ornament, they too, as is seen in the wealth of Eastern potentates, are a medium in which savings can accrue, but only so long as there is no sudden revolution either in fashion or public taste in these matters, as in that event they would lose that element of relative permanency which is so essential as a bank for savings, and might be reduced at a stroke to the worthlessness of the pebbles on the beach. But my point here is, broadly speaking, that *national* savings do not exist in the form of consumable wealth, but only of such things as have the element of calculable *permanency* in them; for what is consumable is in its essence impermanent, and exists for the very purpose of being destroyed. And now we have to observe that gold and silver, bank notes and paper credits of all kinds, although material substances, are in their nature and essence *ideal* and *mental* rather than *material*, and, like mathematical symbols,

get all their value from their conventional acceptance as standards; and they get their conventional acceptance, in turn, from their use in facilitating the movements of the wheel of consumable commodities, alike in production, transmission, exchange and consumption. In an ideal condition of industrial society, therefore, where fraud was unknown and a man's word was as good as his bond, they could be replaced by a purely mathematical system of numbers, but not till then. As for the 'fixed capital'—soils, machinery, mines, railways, ships, etc.,—on the other hand, all these are purely *material* in nature, and although they are placed on the wheel of wealth, and circulate around it, it is properly only those portions of them that are subject to wear and tear that can be classed with the consumable commodities which are continually being produced, consumed, and reproduced, on the wheel itself. The permanent element in them is always the same, namely the powers of Nature which they imprison and which when called upon at any time they will liberate in response to the call; as the locomotive, for example, will always respond to and redeem its obligations in full, as it were, and in definite calculable quantities according to the amount of water and coal supplied. These *permanent* powers of Nature imprisoned in fixed capital then, are to be figured not so much as actually *on* the wheel of wealth production and consumption, as circulating around with it, as it were, and gratuitously giving their economic services at the points where they are most wanted; in the same way as the electricity in a dynamo, although supplying all the economic power to the wheels of a factory or a motor car, may be said to exist outside of them rather than as parts of them; they belong rather to the medium in which the wheel of wealth revolves and functions, and from which it draws all its strength, than to the wheel itself which without them would be cold and dead. In fact, these powers of Nature embodied in the 'fixed capital' of a nation *are* themselves the consumable products of the nation which circulate on the wheel; only they

have been *transformed* in the process. The bread is transformed wheat, the wheat is transformed soil, but the soil is fixed capital, and the fixed capital is a power of Nature; the cloth is transformed sheep, the sheep transformed grass, the grass is transformed soil, but the soil is fixed capital, and the fixed capital a power of Nature The transportation of goods from one point to another, which is an essential part of their production, is transformed motor-power, which in turn is transformed steam and coal, but both locomotive and coal are fixed capital and powers of Nature; and so on with everything which is produced and consumed in the endless combinations in which they are served up. If therefore all the consumable goods that are produced, circulated, and consumed on the wheel of wealth are but transformed 'fixed capital' and powers of Nature, it follows that the gold and silver circulating medium of a nation and the great mass of paper credit obligations issued against them, and which are ideal symbols, counters, and representatives of the wealth of a nation, must be based either on the continuous stream of consumable wealth, or on the total of the 'fixed capital' of the nation, but not on both. They cannot be adjusted to the consumable goods, for these are temporary and evanescent and as difficult to catch as fish in water, and when caught are as difficult to hold, for they will go bad on your hands The currency and credits of a *nation*, then, *as distinct from those of an individual*, can only be based on its 'fixed capital' in all its varying forms. To base them on fixed capital and consumable goods together, would be to base them on the same thing counted twice over: as much so, indeed, as if an individual trader, say a baker, were to ask for credit first on the flour he had bought, and then on the bread into which he had transformed it; or a butcher, on the cattle, and then on the meat and hides into which they had been cut up. He might get it on one or the other, but not on both. It is true that each of a series of producers, all handling in turn the same product,

but in different stages of its development—farmer, manufacturer, wholesale dealer, transporter, and retailer—can draw credit advances against it, but the *nation as a whole* can only issue a credit against that part of it which has a relative permanence, namely the fixed capital involved in its production at its several stages, as otherwise the same thing would be counted as a national asset as often as it changed hands. The reason that each of the series of producers can obtain credit on the same thing slightly modified and added to by fresh fixed capital at each stage, is because each credit as it is issued extinguishes the one that went before (if all the producers in the chain are solvent), until we come at last to the retailer; so that in fact there is only one credit against the commodity after all; as the candle which has lit up the rooms of a house one after another and has its light extinguished in each room as it passes to the next, counts only as one candle. When at last the consumer buys the commodity from the retailer and pays for it, that credit too is extinguished; and so far no obstruction having occurred at any point in the wheel of wealth, there is nothing to slow its pace. But should the commodity lie on the retailer's hands unsold, or be sold but not paid for and so remain a bad debt, this obstruction to the retailer's business is propagated backwards along the whole series of producers engaged on the commodity, and restricting the sales, is at once transmitted at each stage to the fixed capital and powers of Nature employed at that stage, slowing the machines, preventing the full employment of labour, and so, by getting as a free gift *less* of the powers of Nature embodied in them, slows to that extent the whole wheel of wealth of the nation, and lessens the credits that can be raised on it as a working machine whose wealth-producing capacity is proportioned to the speed of its revolutions per unit of time.

The 'fixed capital' of a nation, then, is the only permanent tangible reality on which that nation *if standing alone by itself in the world*, could lay its hands as an asset against which gold

and silver and credit notes, its *ideal* representatives, could be advanced with security. It is the permanent reality from which issues the moving mass of consumable goods continually reproduced on the wheel of wealth—goods which are no sooner produced than they are carried around to the point where they are consumed and devoured, and so, as national assets, are continually cancelled and extinguished in the process. In other words, the credit notes, bank notes, etc., must rest on a basis of gold and silver, but the gold and silver themselves must rest ultimately, and keep time, measure, and proportion with the fixed capital of the nation as embodied in its soils and mines, its machines, its railways and ships, its warehouses and dwelling houses, bridges and what not—always including of course the *working population*. If not, the excess of credits will shrivel into waste paper, the machinery of production for the time being will stop, the powers of Nature can no longer lend their gratuitous aid, and if the collapse of credit is total, the wheel of wealth will come to a stop.

CHAPTER VI.

A NATION'S ASSETS.

IT is necessary at this point in our demonstration to pause for a moment to see if we can find some criterion for determining, in a short-hand kind of way, at what point in the scale of Production the fixed capital of a nation, which embodies the powers of Nature from which alone savings are made, ends, and where the merely consumable goods circulating on the wheel, and which form no part of the wealth of the nation as such, inasmuch as they are already implicitly contained in this fixed capital, begin; as the solution will enable us to put our finger with more definiteness on the cardinal principle of the philosophy of savings which, constituting as they do the *increase* of wealth of a nation, must be the main object of the Applied Science of Political Economy. And this criterion I think we shall find in two elements equally essential;—the one the element of *relative permanence*, in the sense that the economic product will retain its economic value long enough for the world-market to found practically reliable predictions on it, and so be able to economically manipulate it, and realise credits on it; the other, that it will be able over the whole period covered by that relative permanency to liberate definite amounts of the wealth-producing powers of Nature when called upon; provided always that calculable provision can be made for the expenses of wear and tear. But before proceeding to this, we must first consider how it stands

with an *individual* trader, as distinct from the *nation as a whole.* Now in the ordinary bankrupt assets of an individual farmer, manufacturer, wholesale dealer, merchant, or retailer, you can not only realise on his money, his credits, and his fixed capital, but also in the case of the wholesale dealer or retailer on his consumable goods, down even to his moth-eaten clothing or damaged fruit, provided always you limit sufficiently the period of time that is to be understood by relative permanency; for I doubt not that a Covent Garden fruit merchant, or the costermonger retailing that fruit in some side alley, could realise something at least in the morning on what if not sold would be quite worthless by the evening But with a nation it is different, and some light perhaps will be thrown on our problem of where the fixed capital *of a nation* ends, and where the consumption that is already included in it begins, by a consideration of the question as to what extent the land, the population of a country, and its stock of cattle, etc., figure as fixed capital in different stages of civilization, and to what extent not. Now in pastoral ages and among nomadic tribes, where the land was unenclosed and uncultivated, and the peoples that roamed over it were always striking their tents and moving on, leaving the land over which they were passing behind them, it was only the cattle, sheep, or other live stock that could form the 'fixed capital' in which savings could be made, and on which tribal credits could be drawn, as it was in these alone that the economic powers of Nature on which these people could draw were centred and embodied; while the land itself, which in the natural order is the fruitful womb and mother of all this live stock, was reduced to the position of a mere temporary accompaniment, as it were, without value; so teaching us that it is only in those forms of fixed capital which have *economic* as distinguished from *natural* permanency that the savings of a nation can be made, and against which credit obligations can be drawn. In the ages of Slavery, again, where the land is in permanent cultivation, the slaves can be

added to the land as an element of fixed capital in which savings can be made, inasmuch as they too have a relative permanence in the normal period of their working lives, and are as transportable from one nation to another as gold and silver, as was seen in ancient Greece and Rome. Herds of cattle and flocks of sheep, again, also have a relative permanency like the slaves, and are transportable like them, and are therefore to be counted as fixed capital, and as a national asset can be assessed either independently of the value of the land, owing to their independent reproductive powers, or if included in the value of the land would give it as an adjunct of fixed capital a higher value, precisely in the same way as if these lands had been improved by drainage, outhouses, fences, and manures. In the Middle Ages, again, when the land had become the permanent home of men, and not as in the pastoral ages their temporary resting place, the labouring population who were bound to the soil as serfs, could be counted as part of the fixed capital of the nation to which they belonged with the live stock, either separately as having an independent relative permanency, or lumped with it and giving it an additional value as a national asset.

And now we have specially to ask, how does it stand with the free Working Population of Modern Times with whom we are here mainly concerned? Are they to be regarded as an independent species of 'fixed capital' that has to be counted separately in any inventory of a nation's wealth, or are they already implicitly included in it like its corn and wine and consumable goods generally. The question is important, inasmuch as in the theory of the Orthodox Economists the working population figures merely as an appendage of capital, and as already counted in it, quite as much so indeed as if they were consumable goods. For it will be remembered that it is one of the 'fundamental propositions' of the Orthodox Economy that the working population is fed and kept and paid *out of* capital. It is true that it is out of 'circulating capital'

that they are represented as being paid for their services, in the form of the food, clothing, etc., which their wages buy. But as these, although called 'circulating capital,' are already as we have seen included in the fixed capital of the nation, none of them can be counted again as a separate asset, any more than the baker's bread can be counted as well as his flour, or the weaver's cloth as well as his yarn. It follows therefore that the Orthodox Economists are logically bound to deny that the Working Population are an *addition* to the fixed capital of the nation, but on the contrary are bound to affirm that they are a *deduction* from it, inasmuch as they are paid out of a part of it which is specially set aside for their keep; that part of the stick, in fact, which has to be lopped off before the rest of it can be fairly set down as an addition to the nation's wealth Now if I am right in this, nothing can better illustrate the bankruptcy of the Orthodox Economy, or its essential hollowness from roof to foundation. Let us consider it, therefore, a little more closely. It is true, of course, that the working population being at the present day free to come and go as they please, the life of each one of them taken separately, and the chances of his finding continuous work during his ordinary working years, is much too risky an asset to base any but the most limited time-credits upon: but on the other hand when taken *in the mass* and generalised collectively as 'working population,' the risks and chances of each so balance and neutralise one another as to give them as a mass the relative *permanence* of a solid body; and not only will insurance companies advance large credits against their generalised incomes, but their productive economic capacity as a whole will be found to be so enormous as to form one of the greatest of national assets, containing in itself as it does the double requisites of a relative permanence, and of being able to liberate economic powers of Nature,—those powers namely which for scientific convenience we have placed under the separate category of powers of Man.

But if it still be questioned whether they are an addition to the fixed capital of a nation, all hesitation on this point will be removed by simply considering what a collapse there would be in all Government Securities if by any chance say one half of the skilled working population were swept away at a stroke by a pestilence or other national calamity. And with this proviso that the working population of a country must be added to its other fixed capital as a national asset, and not deducted from it as an expense only, as is done by the Orthodox Economists, we will leave the matter for the present until we clear up another aspect of it which is essential to the final conclusion towards which we are working. In doing this we shall be enabled as well to add another distinction to those already laid down in our Applied Science of Political Economy; and this will fall most appropriately, perhaps, into its place here.

This distinction is that not only do Production and Consumption involve the same aggregate of commodities drawn from a definite aggregate amount of fixed capital, and variously transformed by that fixed capital at different stages of the wheel as they circulate around it, but the producers and the consumers are, when economically and not politically considered, the *same* people, and not distinct and separate divisions of the population. Now the orthodox Economists in many of the most important corollaries which they have drawn from their original stock of first principles, proceed palpably on the idea that the Producers and the Consumers of a nation form two *separate and distinct economic divisions* of their subject matter; the capitalists in general being identified with the Producers, and the mass of the working population below the line of the rich and luxurious, with the Consumers. But the absurdity of this view that Producers and Consumers are two distinct sets of people, economically considered, only requires to be clearly stated to be seen. For, if we consider it, each man who takes his place on the wheel of wealth in the morning (and if he does not do so he is either a pensioner, a

pauper, an invalid, an incapable, or a Government taxing agent, and so is not *on* the economic wheel at all) must become a consumer before the evening; so that if we allow the wheel to come round full circle, in order to bring all products to their full completion as consumable goods, not only will it be found that the producers of the morning are the same persons, and not different, as the consumers in the evening, but that their products are the same products which are consumed in the evening: the tailor and shoemaker consuming the baker's products, and the baker the shoemaker's and tailor's, and all alike producing and consuming each other's, whether they are engaged in farming, in manufacturing, in wholesale dealing, transporting, or retailing.

Now what is the reason for this obstinate persistence of the Orthodox Economists in perpetuating the delusion of the Producers and Consumers being two different sets of people? It is because they have mixed up Practical Politics, which is subject to no law but expediency or force, with Political Economy. Because for purposes of taxation, or as a lever for obtaining for the workmen or the capitalists, as the case may be, a larger share in the products of industry, they have been in the habit of dividing the population roughly into a class of consumers, the working class and the poor, and a class of producers, the capitalists, the manufacturers, the middlemen, and the rich generally; because of this, I say, they have slid unconsciously into the belief that as this division can be made for *political* purposes, it can also form a natural division in the subject-matter of Political Economy. But this is a prime fallacy, a confounding of Politics and the distribution of political power with the special Science of Political Economy as such and its laws; and any argument based on it as an integral part of the Science of Political Economy must lead to endless error in theory as well as to endless mischief, as we shall presently see, in practice. It does not follow, for example, that because you can put a tax on a commodity or

person—on landlords, or tenants, on capitalists or labourers, on luxuries or necessities, on drink, newspapers, credit notes, armorial bearings, dogs, matches, or what not—that these may all be regarded, as one might be inclined to think, as separate items of the *nation's* income. It is true that they all represent the incomes of *individuals*, but so far from being all alike elements in the nation's income, it is more than probable, as we have seen from our discussion in a preceding chapter, that one half are already included in the other half, and that the real income and savings of the nation are being taxed over and over again; quite as much so, indeed, as if you added to the list, taxes also on red-haired people or on dark, on those over six feet high and those under, on the very old or the very young. For taxation as such belongs to the domain of Politics and of Political Power, and is as capricious and unpredicable as the weather or the seasons, and has in consequence no more to do with Political Economy as a Science than highway robbery has to do with legitimate business. It concerns Political Economy only when the question is asked as to what *effect* this or that tax will have in accelerating or slowing the wheel of wealth; in the same way as oil or sand only touch the science of Mechanics when it is asked what effect they will respectively have on the movements of a machine when inserted between its wheels. In saying this, I am not holding a brief for Political Economy as an academic specialism; on the contrary it is one of the main objects of this work, as will appear in future chapters, to enforce the doctrine that when you come to action you can no more cut Political Economy as an academic specialism out of the living tissue of Civilization as a whole, or general Sociology, than you can Psychology, Politics, Ethics, or Morality.

Summing up so far, then, we may say that while the *individuals* that make up a nation can accumulate savings and increase their wealth out of any and every economic commodity, whether it be gold, or credit notes, or fixed capital, or consumable

goods, or slaves, or cattle, old clothes, damaged fruit, refuse, and even excreta; and while taxes may be raised on all these and on every quality, condition, and class of person as well: the savings of a *nation as a whole*, if it stood alone by itself in the world, *and therefore of the world itself conceived as a single whole*, could only come out of, firstly, those forms of fixed capital which, when wear and tear are provided for, possess the economic attributes of *permanency*, and of emitting economic powers as *free gifts* over and above the human labour spent on them; and secondly, out of the entire labour and skill of the Working Population engaged in production, as embodying that subdivision of these powers of Nature which we have placed under the category of powers of Man. But with this proviso, that all consumers shall be regarded as producers as well; for all who are not such, are a tax on the national savings, and like the sick, the aged, and the incapable, are the subject-matter of Politics and Legislation and are not properly speaking *on* the wheel of wealth at all, as subject-matter for the Science of Political Economy. On the other hand we have seen that the other half of the wheel which deals with Consumption, and comprises the entire aggregate of consumable goods which are continually issuing from this fixed capital of a nation and its population of workers, is already *implicitly* contained in the fixed capital, the inventor's genius, and the workmen's skill, being but transformations of these into consumable forms; and so cannot as a national asset (on our present assumption that a nation stands alone in the world) be counted twice over. But as no nation really does stand alone in the world, but only exists *side by side with other nations* with whom it is in trade relations, we now find ourselves confronted with a series of fresh complications more involved than ever, and which will require a fresh series of chapters to elucidate them and to draw them out into separate skeins, before the process of generalising the whole and reconstructing it in terms of our symbol, the wheel of wealth, can begin. To

these fresh aspects of our subject, then, we have now to address ourselves. But we cannot do so with effect until we have settled the question as to how gold and silver, credits, bank notes, etc., relate themselves to our wheel of wealth, and where they are to find their proper place on it or around it; as well as the more important question of whether in a nation standing by itself (or the world as a single whole) they are to be added to the nation's (or the world's) assets, or are already included in its fixed capital and its working population.

CHAPTER VII.

ON MONEY.

IF only the orthodox Political Economy could be got rid of altogether, and could be laid on the shelf once and for all, like the theory and practice of perpetual motion scheming which, as we shall see later, it so much resembles, but which the Physicists and Mechanicians have fortunately no longer to consider before they can set to work, the reconstruction of the Science of Political Economy would be a comparatively simple affair, and would not give us much trouble. But as this unfortunately is not so, and as the old Economy still lives and flourishes in academic haunts, perpetuating itself there from generation to generation, and by its subtle interfusion of Politics and political Power at every point, infecting the mind of each generation in turn with its fallacies and illusions, like old Theology, so that they neither really believe in it, nor yet dare altogether repudiate it, it is necessary for us to chase these fallacies from point to point until we run them separately to earth, in spite of the tax which we must put on the reader's patience in the process. Now one of the major illusions of this kind, which has been fraught with the most disastrous and far-reaching consequences, as we shall presently see, is that the Economists have constructed their Science which professes to be true for the *world* as a whole, or for a *nation* as a whole, from the practices which regulate and determine the increase of wealth of *individuals*. But before we can grapple

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with this fallacy successfully, as we hope to do in a later chapter, it is necessary to clear the ground for it as far as possible. And as we are still engaged in considering what the laws of the Applied Science are for a nation standing alone in the world, and especially in trying to determine what things in a nation so situated are to be regarded as part of its fixed capital from which its savings, and so its increase of wealth are drawn, and what are to be classed under the category of consumable goods already implicitly included in that fixed capital, it is necessary to consider more closely than we have yet done a question still remaining over, namely as to where precisely and under what category are to be placed such instruments of exchange as gold and silver, bank notes, credit notes, etc.; and to what extent in a nation standing by itself they are to be regarded as an addition to the wealth of that nation. The point is a more or less complicated one, and each aspect of it will require to be threaded out separately.

Now gold and silver in themselves, when regarded like other metals for their use in the arts, or when sought after as ornaments for the person, are of course simply commodities like other consumable goods circling around the wheel of wealth, and are already implicitly counted in the fixed capital; and their value follows the ordinary laws of value in general. But it is different when we regard them as part of the currency and recognised *medium of exchange* of a country. In this capacity their position is a somewhat ambiguous one, like the position of the amphibians in the animal kingdom, which belong neither altogether to the water nor to the land; they are neither altogether on the wheel of wealth nor altogether off it; they neither altogether follow the general laws of the wheel nor are they altogether exempt from their influence; they are neither altogether fixed capital nor altogether consumable goods implicitly contained in that capital. In a sense they have to be counted as capital, inasmuch as without them the consumable goods on the wheel would no more get circulated than if

there were no railways, bridges, or canals, but only the ordinary facilities of the wandering and circuitous turnpike roads. But railroads, bridges, and canals are parts of the fixed capital of a country, and are, by their saving of time (and so accelerating the speed of the revolutions of the wheel), a definite asset and addition to the wealth of a country. In that sense, then, gold and silver as circulating medium may be said to be quite as much as the railways and canals a part of the fixed capital of a country. But they are not fixed capital in the sense that the more you increase them the more wealth will you liberate, and the more you decrease them the less wealth will you produce to be consumed and enjoyed. On the contrary if you increased them *out of proportion* to the rest of the fixed capital, they would only lose their value. On the other hand, if you had no gold or silver currency at all, but still retained your other forms of fixed capital, although owing to the obstruction to the circulation of commodities the wheel as a whole would slow and wealth decrease, still you could manage to get on somehow, better or worse, with some form of barter, whereas you would starve on a mountain of gold as quickly as on a granite Alpine peak.

But money has another function still more important than its function as a means of circulation and transport, like that of a railway or canal. It is the *standard or measure of value* as well, of all other commodities whatever, whether fixed capital or consumable goods, and without it nothing but chaos and waste of wealth through waste of time would ensue. Things would rot before they got apportioned, and would lie helpless in a heap, as a corn crop would, for example, if you had to count its separate grains on your fingers, instead of in definite weights or measures of capacity by the rules of arithmetic, before it could get distributed: or as the bricks of a house would if you had no standard of measurement to mark out where and in what relation to each other they were to be placed in building operations.

But would it not be better if we classed money under the category of consumable goods, if we cannot get it strictly to fall under that of fixed capital? Yes, and No. On the one hand it resembles consumable goods inasmuch as, unlike fixed capital, it is actually *on* the wheel of wealth, and circulates around it; and passes from hand to hand like other consumable goods. Like consumable goods, too, if its circulation is impeded from any cause, as panic for example, it will slow the movement of the whole wheel by preventing the full utilisation of the fixed capital, and, in consequence, of the free economic gifts of the powers of Nature which that fixed capital can, according to its capacity, liberate at all times when called upon. But on the other hand, again, while consumable goods in the aggregate cannot be increased too much, inasmuch as they constitute the very wealth itself which is the end and aim of all production; money, *in a nation standing alone by itself*, if increased beyond a certain amount would not only not increase wealth, as we have seen, but if produced in any great excess would rather, by the extra labour involved in its production and circulation, diminish it. It differs, again, from consumable goods inasmuch as although both circulate from hand to hand on the wheel, the consumable goods as such exist to be consumed and destroyed, whilst the money as such must not be destroyed or it will have failed in its object which is to lose as little of its weight as possible by consumption or wear and tear; indeed it is owing to their relative fixity, immutability, and permanence, that gold and silver have been chosen for the double purpose of a means of exchange and a standard of value. And above all, while the other consumable goods constitute the real wealth of individuals, money which can neither be eaten nor worn, nor otherwise made use of for either the sustenance, the preservation, or the comforts of life, is not real wealth at all.

And so with all these differences from, and resemblances to, both fixed capital and consumable goods, the question still

recurs as to where definitely we are to place it. Being neither altogether outside the wheel, like the fixed capital, nor yet altogether on it and circulating around it like consumable goods (for its function as a *standard* of wealth places it as much outside the circulating wealth itself as a yard measure is outside the thing to be measured), I am afraid we shall have to put it in a separate compartment of its own. It is to be regarded rather as a necessary *adjunct* of the fixed capital of a nation than as any true addition to it; or if it is an addition, it is of a *negative* character rather than a positive, like the railroads and waterways which do not increase wealth by their purely productive powers, but only by their negative services in the saving of time necessary to get the goods into the hands of the consumers. But as money actually and in fact does quicken the movements of the wheel, this fact of its being a negative instead of a positive element in wealth production might be dismissed as a mere pedantry, were it not that it cannot be increased beyond a certain amount, without having a negative or even contrary effect. And thus it is to be regarded in its essential nature rather as a necessary adjunct of wealth than as wealth itself, as the pebbles in the stomach of a fowl are a necessary adjunct to the digestion of its food, but not part of the food itself.

Strictly speaking, money, like the order of the amphibians in biology to which we have compared it, belongs as much to the province of Sociology as it does to that of Political Economy, and may be said to enter into the domain of wealth production from *without* as a beneficent accessory to smooth the running of its wheel, much as a piece of beneficent legislation might do, rather than to be an elemental essential of wealth itself. And the reason, I think, is this, that in the evolution both of Society and of Economics, the place and function of money would seem to be a provisional and transitional one, lying as it does between the age of barter, when it was not used, and the millennial state when it will be

superseded and no longer wanted. In the earliest times, it is probable that the distribution of the ordinary necessaries of life was a matter of fixed custom or tribal arrangement, and was performed without the aid of any form of money at all, while what was afterwards to become money—shells, furs, curious stones, or what not—were ornaments of the person rather, conferring dignity, honour, and distinction, much as ribbons, orders, insignia, and titles do now; and only used as money for the settlement of inter-tribal obligations; and so belonged as much to the sphere of Politics and Sociology as to that of Political Economy. In the millennial society of the future, on the other hand, it is probable that there will be some more equitable standard for the distribution of honours and rewards of all kinds, material as well as moral, political, and social, than the amount of mere money or bank credits which men, or classes of men, have managed either like robbers to seize, like misers to hoard, or like exploiters to cunningly divert to themselves through political and legislative power or the mingled operations of religion and fear. But in the present *transitional* stage of human development and evolution, Money in a negative way is as real and necessary an element in the production and increase of wealth as railways, roads, and waterways. In a negative way, I have said, inasmuch as its function, being still as much political and social as economical, is rather to *regulate* the distribution of wealth between individual and individual, than to create it; resembling in this the function of courts of law, which do not create the social and moral values of individuals, but regulate and redistribute them when these individuals fail to play the social game fairly. Indeed without money, wealth and its distinctions would become an endless bone of contention between the individual members of a Political State, and would be at the mercy of the most unjust, the most brutal, and the most disorderly elements of the population; much of the wealth of a society would decay or become useless while men were squabbling and

fighting for its possession; and not only would the wealth of the nation decline in consequence, but its sense of justice, its code of morality, and its social standards and ideals as well; all of them the most delicate and highly cultivated flowers which civilization has reared from the wild stock of the brute aboriginal world, and which require the most assiduous care and attention if they are not to revert to their wild state again.

Summing up, then, we may say that if a nation stood alone by itself, or, which is the same thing, if the world is to be regarded as a single economic whole, gold and silver money are not to be counted in the national assets from which savings can be made and wealth increased, in the same sense in which the soil and mines, inventions and processes, and the industrial skill of the population can be counted; inasmuch as although they have our first prerequisite of all savings, namely relative permanency, they are wanting in our second, namely those powers of Nature which, as free gifts to man over and above the labour involved in the machinery of all kinds necessary to capture them and yoke them to his service, are the source of all increase of wealth. For all practical purposes, therefore, we may regard them as implicitly included with consumable goods in the fixed capital of the nation, as a kind of natural lubricant, as it were, secreted by that fixed capital for the oiling of its machinery, but in quantities strictly limited to the purpose; like the natural oil which the water-fowls secrete to facilitate their movements through the water. In our next chapter we shall see that the same holds true, but to an even greater extent, of credits of all kinds—bank notes, bills of exchange, cheques, notes of hand, etc.,—always premising that we are dealing either with a single nation isolated, or with the world as a single economic whole. In the normal case of a nation *existing side by side with other nations*, and in trade relations with them, the gold and silver which are the immediate desire of all hearts as the standard and measure of economic wealth the world over, and not merely its circulating

medium, must be added to the fixed capital and the working population as part of the nation's assets, inasmuch as it can draw to that amount on the wealth of other nations at all times, and convert that wealth into an addition to its own either in the form of fixed capital or consumable goods at its discretion. And the same is true of all credits held against other nations and redeemable in silver or gold. In our next chapter we shall consider the function and mechanism of credits in detail.

CHAPTER VIII.

THE MECHANISM OF CREDIT.

WE may begin this chapter by remarking that if all the world were absolutely honest, and each man in it could foresee with accuracy the quantity of economic wealth that would issue from the industrial enterprise in which he was engaged, it is probable that mere paper currency and credit acknowledgments would not only partially as at present, but entirely supersede the necessity of gold or silver as a medium of exchange, and that some purely numerical unit, as Mr. Kitson has suggested, would replace both of these metals as a standard and measure of value for all commodities whatever. But as, unfortunately, at this stage of civilization neither the requisite amount of honesty nor yet of economic penetration and foresight is forthcoming, these paper transactions must still continue to rest on some material tangible commodity, like gold or silver, in which they are redeemable, as final security for men's economic hopes and fears, and as guarantee at once for the intelligence with which the enterprises have been undertaken and for the good faith on which liabilities have been contracted. If this be so, it would seem to follow that however many of these paper credits were issued and set flying in the economic sky as a *medium of exchange* for the consumable goods that are in continual circulation from hand to hand around the wheel, all would go well, provided always

that like paper kites they were each attached to the earth, as it were, by some controlling string, and bore a definite relation primarily to the gold but ultimately to the fixed capital in actual operation turning out the products on the expectation of which the credits were issued. Now were there nothing but gold in the nation as the medium of exchange, nothing could go wrong, for the aggregate amount of the gold would, by the tariff of values or prices of commodities, coerce the aggregate of fixed capital into keeping step and balance with it; inasmuch as being the *standard of value* as well as the medium of exchange all other things must be measured in terms of it, and not it in terms of them. The only difficulty of a pure gold currency would appear when the consumable goods which issue from the fixed capital, have to be circulated from hand to hand among the millions of separate individuals that make up the nation, and when coins have to be found to effect the tens of millions of exchanges which make up the process. For then it would be found that unless you could divide up your gold into quantities and denominations so minute that they could be used for purchase or sale in the smallest retail transactions, the wheel of circulation would be obstructed on the side of consumption. And as we have already seen that an obstruction to any one side or aspect of the wheel must slow the whole wheel, the consequence would be that with a lessened 'turn over' in the retail shops, production itself would be lessened also, and the wealth of the nation as a whole would decline. To meet this difficulty, accordingly, silver and the baser metals, down even to the copper farthing, with their amounts strictly limited as legal tender, and all of them bearing a fixed and unalterable relation to gold, answer admirably in all the ordinary daily transactions of life. But as the business transactions of a nation become increasingly complex, subdivided, and minute, and the saving of time in the handling of this multiplicity and complexity becomes of increasing importance, no money coins or combina-

tion of coins can be rapidly enough got together to cope with them, or can be sufficiently flexible and expansible to meet emergencies of which time is the very essence. Something more readily accessible, flexible, and manipulable than metallic coin is necessary to negotiate transactions when all commodities are on the loom of time at once, and when their quick-change transformations admit of no delay. Chances, anticipations, forecasts, and time calculations must therefore be made and taken on all hands, and by all the parties concerned, if the wheel of wealth is to speed its revolutions, and the wealth of the nation to be increased. To meet this new economic want, accordingly, some other symbol must be found for the transfer of wealth, something which has neither to be dug out of the mines, like gold or silver, before business transactions can begin, nor to be gathered in driblets from those who happen to have it in immediate possession. An effective expedient for peoples who could write and had convenient materials at hand to write on, as well as safe places of deposit for these writings when executed, was found in 'promises to pay' scribbled on pieces of paper and enforced by all the power of the State. And accordingly, in the modern industrial world from the time that commodities issue from the storehouses of fixed capital in the soil, mines, factories, and workshops in which the economic powers of Nature reside, and are placed on the wheel, they are attended at each change of ownership on their way around it by flights of these paper credits of all kinds—bank notes, bills of exchange, cheques, notes of hand, etc.,—corresponding to the transmutations and changes of ownership of the material commodities which they represent. In their aggregate, and when seen from a sufficient distance where their details are lost, they form a kind of fluid elastic medium surrounding the grosser material commodities on the wheel, as the air surrounds the earth, and move around this wheel as much more easily and freely as do the birds in the air than the beasts over the earth.

Now the first effect of this displacement of gold and silver by paper credits is that the rapidity with which these pass from hand to hand sets up a corresponding rapidity in the circulation of the material commodities themselves to which they correspond, and against which they are drawn, inasmuch as without them, these commodities would come to a stand-still at each point in their course, like carriages on a railway siding, until the gold which was necessary to book them through and pass them on was forthcoming. And so by the stimulus given to the circulation of every commodity on the wheel, the revolutions of the wheel as a whole in a given unit of time are accelerated, and the wealth of the nation as a whole proportionately increased.

With the above preliminaries we are now brought to the very nodus of the problem which we are to discuss in this chapter, namely as to the law or principle which is to guide us in fixing the point to which these paper credits may be multiplied and extended with positive advantage, and beyond which a further extension of them can only work mischief or end in financial crisis and disaster.

The first point we have to notice is that every commodity that is put on the wheel of wealth can have a credit note drawn against it at the start, and an extra one, and for a greater amount, if it forms a link in a process of manufacture, like flour from wheat, every time it changes hands, until it is finally taken off the wheel at the retailer's, and consumed by his customer. And further, that so long as the consumer pays the retailer for the goods he has bought, it matters not how many of these credit notes are contracted and accumulated by these goods on their way; for the retailer will then be able to pay the merchant, the merchant the manufacturer, and the manufacturer the farmer or mine owner; and the whole accumulated credits which have been hung around one and the same commodity like a hive of swarming bees around their queen, will be detached and extinguished one by one in turn

until none are left. So far this is what is called *legitimate* business; and the only effect of having added these paper credits to the metallic currency and used them alongside of it as an addition to the circulating medium of the country will be one of pure gain, for they will have brought commodities all the more quickly from the fields, the factories, the workshops, or the mines where they were produced, to the point where they were wanted for consumption, and so by the saving of time involved, will have accelerated the movement of the wheel and increased the nation's wealth; these lightly blown and unsubstantial gossamer-like credits which in themselves are of no more intrinsic value than that of the ink and the paper on which they were written, having through their industrial and economic effects in speeding the circulation of commodities, a value as substantial as the material ships, railroads and waterways themselves; the only difference being that while the credits, like ordinary railway tickets, are good only for the different stages of the *particular* journey for which they are issued, the railroads and ships having the relative permanency of fixed capital are good for all the stages of all the journeys of all the commodities that pass over them. But if on the other hand we assume, for the nonce, that the consumers of a nation do not pay the retailers, the retailers in turn will not be able to pay the merchants, the merchants the manufacturers, nor the manufacturers the farmers or mine owners, and the consequence will be that the wheel of wealth will have to start on its next revolution with the added load of unredeemed and unextinguished paper credits clinging like dead weights around the fresh supply of commodities newly issued from the soil, the workshops, and the looms; the credits which before were like the engine attached to the train of goods to help them along, being now like an added load of empty carriages obstructing its running. It is of course true that as the consumers in general, as we have seen, are the *same* persons as the producers, there is no reason in the ordinary

course of things why they should not be able to pay their retailers, inasmuch as being all at work by the hypothesis, they are all in receipt of the money wages and other incomes to do it with; and besides, the law of contract is always at their side like a policeman to compel them to do it if necessary. But if from some widespread and unexpected industrial calamity whether personal or national, great masses of them were unable to do so, still the impetus given to the speed of the wheel by the paper credits when in due and normal quantity will have given it such an increase of momentum as will enable it like a railway train at full speed to carry a greater freightage and excess of these credits, and to a greater distance beyond the point of difficulty and obstruction, than if it had been moving more sluggishly; and will, unless the calamity be too long continued, make comparatively little appreciable difference in the speed of the wheel. The old batch of unredeemed credits will, so long as the fixed capital is still kept running, be spread thinly and evenly over a number of revolutions instead of being heaped up around one, and so will be gradually redeemed and extinguished without any violent perturbation or crisis in trade. But this of itself, it is to be observed, would not be sufficient to protect a nation for long from serious economic disturbances and joltings, even in the ordinary course of legitimate credit business, were it not for a special mechanism which exists to ensure the smooth and easy working of the wheel; and to this we must now give a word of passing notice before we can proceed to other aspects of the credit problem.

On the centre or axle of the wheel of wealth, from which every side and aspect of it can be surveyed, stand two groups of dealers, the one with their eyes fixed on the material *commodities* circling around it, and the other on the fluid atmosphere of *paper credits* which attend these commodities and surround them, as we have seen, as a more rarefied medium of motor industrial power. The first group is composed of the dealers on the Corn Exchange, the Coal Exchange, the

Iron and Steel Exchange, the Cotton Exchange, and the rest; and their function is to ascertain as accurately as possible the amounts of the special commodities in which they deal which are being thrown on the productive side of the wheel from the reservoirs and laboratories of fixed capital—the cornfields, the mines, the mills, factories, and workshops—and what amounts of these are being taken off on the other side of the wheel by the consumers as these commodities are successively transformed on their way round into the actual food, clothing, and other articles of necessity or luxury on which the population lives.

The other group of dealers on the axle comprises the great financiers, bankers, bill-brokers, and stock-exchange speculators, who keep their eyes on the one hand on the issues of paper credits of all kinds, and on the other, on their periods and modes of payment, and the extent to which they are being redeemed and extinguished. And the two groups are so interconnected that nothing of importance can occur in the one but is quickly communicated to the other. Now when the dealers in the *real* commodities ascertain that consumption is likely to fall off from any cause whatever—whether political, social, or economic—they know well, what the orthodox economists ignore, that the productive side of the wheel must slow down to adapt to it. On the other hand should the consumption of commodities give signs of increasing, they know that the cornfields, the mines, and the workshops will be stimulated to the utmost to keep up with this prospective increase in consumption. But they do not wait for the producers to find all this out for themselves. On the contrary they do it for them by the tariff of market prices which they chalk on the blackboards of their several Exchanges, and hoist in advance like storm or fair weather signals, whereby all the producers concerned in working the fixed capital of the nation may know when to extend their operations and when to contract them, when to take more corn or cotton land into cultivation, when to open

new mines or to increase the output from old ones, or to build new machinery, warehouses, or railways, and when on the other hand to leave them as they are, to contract them, or to let the least productive and profitable of them fall altogether out of use. In this way the dealers on the Corn, Cotton, and other Exchanges for commodities perform (although for private gain) a public function similar to that of the governor valve of an engine; they steady the revolutions of the Wheel of Wealth through their tariff of market prices, by adjusting the productive side of the wheel to the consumption side; and so prevent the waste or destruction of wealth which would result if more were produced than could or would be consumed, or the inconvenience and expense that would ensue if less were being produced than was required.

Now with this delicate and sensitive mechanism for the accurate adaptation of Production to Consumption, it is not likely that in the course of ordinary business any great crisis can occur when there are no revolutionary inventions or discoveries looming on the horizon, and when no new and colossal industrial speculative enterprises whose future is uncertain are being suddenly flung on the world. But it so happens that among the group of bankers, financiers, and other credit dealers whose legitimate public function, (although pursued as we have said for private gain), is to steady the movement of the wheel, are a number of dealers, company promoters, stock exchange speculators, and others, who deal in and issue paper credits on the faith of industrial enterprises *not yet begun*, and the outcome and results of which lie still 'on the knees of the gods' in the distant or unknown future. Now these men, although, like all the dealers in paper credits, nominally the lackeys and dependents of the real producers who make the wealth of a nation, succeed in only too many instances in becoming their masters, by taking advantage of their own economic position to usurp new and dangerous functions—like those eunuchs at the courts of the Roman

Emperors who by their flatteries drew on their imperial masters to new designs, beneficent or otherwise, when the actual necessities of the world they controlled would otherwise not have stirred them in their imperial seats.

By highly coloured prospectuses and other commercial cajoleries, these dealers seduce not only the legitimate credit dealers and the legitimate dealers on the Exchanges for real commodities, but landowners, mine owners, manufacturers, and the other classes engaged in production, into industrial enterprises whose issues in many, if not most, cases cannot by any possibility be foreseen by any individual or class of men whatever.

Now it is only in connection with these paper credits based on *future and unknown* contingencies, that any opening for great financial crises and disasters can arise,—and this for two reasons. In the first place, in ordinary credit as in ordinary cash transactions, the actual goods must be delivered *before* the paper credit obligations are contracted: but in credits based on undertakings not yet begun, and where the commodities which it is hoped they will produce have as yet no existence—as for example in joint stock enterprises formed for the opening up of new mines, reclaiming new lands, building railways for the opening up of new countries, or manufacturing new and as yet untried classes of goods;—in all these cases, on the contrary, the credits must be advanced *before* the goods are delivered: and as these credits are converted into money, either before the works are undertaken or during the course of their construction, and so cannot be redeemed until these works are finished and the commodities on the strength of which the credits were drawn are actually produced, the consequence is that for the time being they are a pure addition to the already existing swarm of credits circling around the wheel. And as result, one of three things must happen. Either the enterprise proves successful and justifies by the commodities it produces, or the services it renders, the expectations formed of it: in

this case all will be well, the receipts will be used to redeem and extinguish the credits, and the promoters will deserve well of their country by their foresight and enterprise in opening up new and hitherto unutilized sources of wealth. Or, on the other hand, the money which should have been spent in opening up the mines, in reclaiming the land, or in paying for the machinery and labour, is diverted to other purposes, is fraudulently wasted in the personal expenditure of the promoters, or sunk in experiments from which, as from a dry well, nothing issues; in this case the credits remain unredeemed, and instead of facilitating (as legitimate credits which are based on actually existing commodities do) the production and consumption of the wealth of a nation, they hang like added millstones around its neck. Or, as a third possibility, the undertaking is completed, the goods turned out in quantity and quality corresponding to the promises held out in the prospectus, but the consuming public from some sudden revulsion of feeling, or caprice of taste or fashion, will not have them at any price, or only at a price insufficient to pay the expenses of the undertaking; in this case the result will be the same as in the former, the credits either wholly or in part will remain unredeemed, and instead of helping on the circulation of the rest of the commodities on the wheel will obstruct and clog its movement.

But the main reason why financial crises of national magnitude can only occur in connection with credits issued on the faith of new enterprises not yet begun or completed, is that there is no scientific function or mechanism as yet existing for their control, such as is performed by the great dealers and financiers on the axle who are responsible for the punctual delivery both in amount and quality of the commodities actually on the wheel,—always barring, of course, accidents and disasters which are in the hands of fate and are not subject to human control. And the consequence is that all these new industrial ventures, the realization of whose

promise lies in the future, are in the absence of any central organized mechanism to control them, liable to surround themselves with paper credits swollen in amount and bulk, by the wind and rumour of what they are *going to do*, from the dimension of paper bags to that of balloons. And should the enterprise prove to be a 'wild-cat' scheme or South Sea bubble, and especially if a number of such have been let loose on the public at about the same time, it only requires some big banking house or great commercial firm heavily loaded with these paper liabilities to collapse, owing to its failure to meet its engagements, for all the innumerable minor bubbles attached to the mammoth one to collapse also. And so great is the interconnection of the credit system with its continuous electric chain or belt surrounding the ring of commodities on the wheel, that once started, the collapse of the bubble credits will paralyse the sound ones as well; and both in turn will paralyse for the time being the fixed capital engaged in production, and stop the running of the wheel. Indeed should the financial crisis extend so far that even the Bank of England should be compelled to suspend payment, not a mill or a factory from John o' Groats to Land's End but would come to a standstill as if a bolt had struck it. Præternatural suspicion would have taken the place of excess of confidence, no man could trust to his neighbour's solvency, and the bankers and financiers on the axle, who had abdicated their functions and retired to their tents when the speculative mania was at its height, now that the crash had come would emerge again to take up their normal position at the helm; but unfortunately only to aggravate the calamity instead of helping to mitigate it. For now that the paper credits had burst and collapsed, there would be nothing left as a medium of exchange but the gold and silver, which in amount is at any time but a small fraction of the existing paper credits. This being the property of the financiers themselves, they would not part with it on any but the most ruinous terms, on penalty

of being themselves swept into the general whirlpool of bankruptcy. And so by locking up the gold in their vaults at the very time when it is most wanted to liquidate the sound and legitimate credits which all this time have been circulating with the illegitimate, like the wheat with the tares;—unless the Government came to the rescue by pledging its own credit in which everyone has confidence, for the ordinary commercial paper credits in which for the time being no one dares trust, the stagnation in the wealth production of the nation would continue until it worked wholesale ruin all around. For the production of wealth being dependent on the fixed capital, the closing down of any large part of that capital for a week or a month, would, with the millions of families depending on it, be a very serious calamity. Fortunately there is one form of fixed capital whose operations can never be altogether suspended by the caprice or folly of men, and that is the soil itself, which will go on producing its fruit in season whatever befall; indeed but for this, a collapse in financial credits would not only bring irretrievable ruin to many homes, but actual starvation as well. And the injustice of it all is, that many if not most of the firms involved in these disasters were, but for their sudden inability to meet their engagements, sound industrial and commercial concerns. They have fallen not from any fault of their own, but because they were linked to a system of credits over which, when they are contracted on the faith of *future* speculative production, there is and can be no organized mechanism of control. Summing up then we may say;—First, that paper credits when they keep time and step in due subordination and relation to the aggregate of commodities that are being *continuously* produced *and* consumed in their passage round the wheel, accelerate the speed of that wheel, and so assist the increase of wealth of the community; and thus the laws of their action are in harmony with all the other laws of wealth, inasmuch as they are related not to production alone nor yet to consumption alone, but to a continuous process

of production *and* consumption. Secondly, the effect of these paper credits in increasing the wealth of a nation is not due to any *positive* economic powers they possess—for they cannot themselves be converted into food or drink, houses or clothing—but is due rather to the negative power they have, in virtue of their flexibility and fluidity, of opening up a more free and unimpeded passage for the circulation of these commodities than could be accomplished by the less easily manipulable mechanism of gold and silver alone. Thirdly, that when these paper credits, whether from a deficient production or from a deficient consumption, have been issued in excess of their due proportion to the commodities *actually* in circulation on the wheel, they clog its movement instead of accelerating it, slowing it gradually when no actual crisis occurs, but bringing it for the time being to a sudden stop in times of great financial crashes. And fourthly, that in a nation standing alone by itself (or in the world as a whole), these paper credits are for scientific purposes (and for the same reasons for which we excluded gold and silver currency), not to be counted as part of a nation's wealth; inasmuch as being the *ideal representatives* of its fixed capital, invention, and industrial skill, they are already implicitly contained in that wealth; otherwise the same thing would be counted twice over.

But there is a still further point requiring some comment. I have said that these paper credits must keep time, measure, and proportion with the aggregate of commodities in continuous process of production *and* consumption. But production and consumption are but the two sides or aspects of one and the same thing; the commodities produced on the one side being the *same* as those consumed on the other. Is there then no one thing which will sum up both, and so simplify our conception of precisely what it is that the aggregate of paper credits must be adapted to? To this we can answer that the continuous actual 'turnover' of the retailers of a nation would furnish such a criterion, inasmuch as this turnover is the

meeting point where production and consumption coalesce into a definite unity:—not a single turnover, be it observed, but such a continuous average turnover from year to year as that, for example, on which the Chancellor of the Exchequer relies when framing his budget.

But as the paper credits which give rise to financial crises are not usually contracted on retailers' goods, but rather on the large productive enterprises from which these goods are *expected* to issue, and from which in the case of sound and legitimate concerns they do issue; and farther, as these credits cannot be based both on the fixed capital *and* on the consumable goods, inasmuch as the former implicitly includes the latter; it would practically be more convenient to base them on the fixed capital of the country in actual running; (the fact of the running being itself the proof and guarantee that the goods turned out are really being consumed); for if they were not consumed, the wheel, as we have seen, would slow and the fixed capital would either run on short time, or a portion of it be thrown out of working altogether, according to the extent of the deficiency in consumption. And so the conclusion we are brought to is this, that while the paper credits of *individuals* may be based on anything or everything in their possession, whether it be consumable goods or fixed capital; the credits of a *nation* standing alone by itself, or of the *world* as a single economic entity or whole, can be issued with safety only on the aggregate of its working fixed capital.

But as no nation exists alone by itself, but stands side by side in trade relations with other nations, we are introduced to a fresh set of complications; and as they are complications which affect the solution of each and every problem of the Applied Science of Political Economy, they must be resolved before that Applied Science can make any pretension to completeness. But before ending this chapter, I may remark in passing that the reason I have confined my investigations so far to the laws regulating the increase or decrease of wealth of

a single nation standing alone by itself, is because these laws being the laws of a single economic entity or whole,—whatever its size may be,—can be transferred without alteration to the world as a whole. If therefore the Science of Political Economy were what the Orthodox Political Economists profess their science to be, namely a *cosmopolitical* one, as true for the world as an economic whole as for any and every nation in it, we should need to go no further, for we should already have enunciated the main first principles of the reconstructed Science with which we are anxious to replace the orthodox Science. But for the satisfaction of those who contend that an Applied Science of Political Economy, if it is to be practical, should take a *national* standpoint, and should be true of a particular nation standing in trade relations with other nations,—a quite proper contention inasmuch as no single nation can control the economic policy of another,—it is necessary that we should enquire as to what modifications, if any, are to be made in the laws regulating the increase of wealth *of a nation by itself, or of the world as a whole*, if they are to hold good of a *nation standing in trade relations with other nations*:—and to these we shall presently direct the reader's attention.

CHAPTER IX.

CIVILIZATION AND THE PARADOX OF SAVING.

IN the opening chapter of this volume, the main reason I gave for my proposed attempt to reconstruct the Science of Political Economy on the lines of Evolution and Sociology was that none of the sciences dealing with the actions of human beings could, if these sciences were to be appealed to for practical guidance in life, be cut out from the living tissue of civilization and erected into separate and independent specialisms on their own account, without constant reference to the existing condition of that civilization,—its social structure, politics, legislation, etc.,—inasmuch as these outside influences while interpenetrating and profoundly modifying the laws of the special science at every point, are nevertheless so far as the special science itself is concerned, accidental, capricious, casual, or incalculable; and so can neither be embodied among the laws of the Science, nor yet left out of them, without destroying all its weight and authority for the purposes of life. And I went on to say further that nowhere would this be more clearly seen than in the existing specialism known as the orthodox Political Economy. So far as we have gone, however, it has not seemed necessary to allude further to this aspect of our subject; and indeed it will not be until we come to the laws of the distribution of wealth, that the havoc made by the irruption into them of the rude hand of Political, Social, or Legislative

Power as such, will be fully and conclusively demonstrated. But at the point we have now reached it is necessary to touch, if only for a moment, on the influence of general Civilization in affecting the problems of the Orthodox Economy, and particularly in giving rise to that paradox of *Savings* which by its doublings and shiftings is likely to give us much unnecessary trouble in hunting it down. But in order to get a sufficient perspective for the general remarks I have to make, I would ask the reader to imagine for the nonce that we had reached that millennial stage of civilization when all the world shall be but as one nation, with all its races like brothers, between whom all wars, jealousies, and aggrandisements have long ceased, where there is enough and to spare of consumable wealth for all, and where the amount of a man's worldly possessions over those of his neighbour brings him no more honour than, say, the possession of a larger or smaller appetite for food. In a word I would ask him to imagine that the Socialist's dream of an Utopia or ideal World-State had at last been realized or rendered possible. Now in such a World-State the amount of wealth produced will be the greatest possible, inasmuch as the consumption of wealth, which the hypothesis of a millennium involves, will be the greatest possible also; and that in turn will have stimulated the inventive powers of Man to their highest point in the introduction of the best machinery and the best devices for the organization and division of labour which Science and Art can supply. In such a World-State, the savings of individuals—which as we have seen can exist only in the form of things having a relative permanency, such as fixed capital, gold, or credit notes redeemable in gold—will be the least possible, and will consist almost entirely of those forms of fixed capital from which the greatest amount of wealth proceeds. Gold or silver as a provision for the future will not be required, nor will the credits based on them; for where the material wealth that is continually being reproduced in sufficient quantities for the

benefit of all, is continually being redistributed among all, there will be no point in saving gold or credits, inasmuch as there will be no rainy day, economically speaking, against which individuals must provide beforehand; while as for nations hoarding up gold and silver either for the purpose of aggrandising themselves at the expense of other nations, or of defending themselves against the aggrandisements of these other nations in turn, there will be no such nations in existence; for by our hypothesis they will all have been absorbed in and become parts of a single World-State. Practically the only savings beyond those that are being continually embodied in fixed capital will be of such consumable products as corn for example, which can be stored for a time as a provision against the dearths incidental to the seasons, and will act like a compensating balance merely, to steady the movements of the wheel from year to year. All else will be consumed as it is produced. In other words, to put the matter economically, the amount of wealth produced, consumed, and continually *reproduced* by mankind will be greatest where the consumption of individuals is the greatest (compatible of course with the capabilities of its *existing* fixed capital), and where their personal savings are the least; thus mirroring and corresponding to our ideal or pure science of the wheel, where as we have seen the greatest amount of wealth is produced and reproduced when the amount of consumption is the greatest possible. Carrying, then, with us this law, namely that the wealth of the world will be the greatest possible when the state of civilization and the industrial arts admit of the greatest possible amount of consumption, and when in consequence the amount of saving for future contingencies is the least possible; and contrasting it in our minds with the opposite doctrine of the orthodox Economists, founded on their symbol of the rod or stick, namely that the wealth of the world will be the greatest when the amount of consumption is the least,—and in consequence

the savings carried forward the greatest possible;—let us now consider how the matter stands in the stage of civilization reached at the present day. Here all the conditions are reversed, and Saving as a safeguard against future contingencies is an absolute necessity both of individuals and of nations. Instead of our economic unit being the world as a single political and economic whole—as in the millennial or ideal stage of civilization—we have now not only a number of nations existing in more or less antagonism to each other, but each nation and each individual in each nation having to face his or its economic future alone, and stand or fall by his or its own economic exertions. Saving, accordingly, is not only an economic but a *sociological* necessity both of individual and national prudence and self defence;—a necessity for the individual, as a provision for his old age and for his family, or for worldly ambition, social advancement, or the love of power; a necessity for the classes in a nation, as a means of keeping their position and authority in the State, or of attaining to a share of the good things in the world at present denied them; and a necessity for the nation as a whole as a means of preserving its independence, resisting the aggressions of other nations, or aggressing on them in turn. And accordingly the question which now arises is as to what effect this sociological necessity of Saving, which under existing conditions is a necessity of self-preservation, has on the economic situation. Do these savings increase the aggregate economic wealth of the world (as distinct from that of any particular nation) or not? The orthodox Economists will of course reply at once, certainly they do; for has it not been the very core and essence of their teaching for the last hundred years, that the way in which the wealth of the world is to be increased is by producing as much as it can, and consuming as little, and so saving as much of it as is possible? Is not the increase of capital the increase of wealth, according to them, and is it not one of the fundamental principles of their science

that this increase of capital is the result of saving,—and therefore the more of it the better? This is unmistakeably the orthodox teaching, but I will venture to affirm that the precise opposite is the truth, and that saving, however necessary and beneficent from a sociological or political point of view, is from an economic one a pure derogation and loss; and that far from increasing the wealth production of the world, it decreases it; and decreases it moreover precisely in proportion to the extent to which the saving is carried. And the reason for this must now be obvious from what we have already said. For the first effect of this saving on the part of individuals and of nations is to make each national wheel run more slowly than it otherwise would do. For as the savings of nations *against each other* can consist only of gold or credit notes redeemable in gold; and as the essence of these credit savings is that they are a *postponed consumption*, or, in other words, the refraining from consuming to-day as much as you otherwise would do, in order that you may consume at some future time; and further as the floating aggregate of these credits, individual and national, are a *perpetual* postponement of much of what otherwise would be consumed, enjoyed, and reproduced, each day and every day;—it follows that the fixed capital of each and every nation will, in order to adapt itself to the diminished consumption which the continuous saving involves, throw its products on to the wheel in less quantities; and so the wealth of the world instead of being increased by the saving, as the orthodox Economists contend, will be decreased. So much so, indeed, that should all the world in a fit of political or individual panic turn misers to-morrow, in the interests of themselves, their families, or the nations to which they belong, no more wealth, it is evident, would be produced and *reproduced* than these nations of misers would consent to consume; in the same way as if all the world in an access of religious mania or fanaticism were to turn hermits, the cultivation of the land would fall into decay, manufactures,

except of the barest necessities, would cease, and the world would live, like the Buddhist monks, on a little rice or bread and herbs. And the consequence would be, that while the wheel of religion might go as merrily round as the rotatory calabash of the Thibetans, the wheel of wealth would slow down almost to the stopping point; and the Orthodox Economy which with its doctrine of universal saving was to have increased the wealth of the world and to have worked out its economic salvation, would have palpably undone itself, and in the eyes of gods and men have metaphorically cut its own throat; quite as much so, indeed, as if on a cry of fire arising in a theatre *all* the occupants were to make a rush for the doors at once, and so all alike be crushed and strangled by that very anxiety of each to save himself which at the first blush would seem to be the only means of their common salvation. Now this is the paradox of Saving on which the orthodox Economists have impaled themselves: for if the aim of an Applied Science of Political Economy is to show us how to increase the stock of material wealth which is continually being produced, consumed, enjoyed, and reproduced, and not how to reduce it to the barest minimum on which human beings will consent to exist;—it is evident, is it not, that there must be something wrong somewhere with their Gospel of Saving which when carried out consistently over the world as a whole, would end in the destruction and non-production of material wealth rather than its conservation and increase. For the doctrines of the orthodox Political Economy with their corollaries, are nothing if not *cosmopolitical*; and would be renounced even by their own professors were they not believed to hold good for the world as a whole. The truth is, that the fallacy and paradox in whose toils the orthodox Economists have entangled themselves, is the same in essence as that into which the celibates of old fell when they imagined that because their doctrine was right and proper for themselves in the midst of a world of gross sensualists outside their doors, it must hold also

for the whole world; whereas, of course, had it been carried out inflexibly and universally (and that was what their propaganda aimed at), it would have ended by unpeopling the world altogether! And this is precisely the error into which the orthodox economists have fallen. They had observed that an *individual* increased his wealth by producing as much as he could and saving as much of the proceeds as possible, either in the money he received from his customers or in their credits redeemable in money; they had observed, too, that nations became rich by producing as much as they could, and, in their trade with foreign nations, saving as much of the proceeds as possible in the shape of gold or foreign bills redeemable in gold; and they jumped to the conclusion that as a nation was only the sum total of its individuals, and the world at large the sum total of its nations, that therefore the same law held for the *world as a whole* as for the separate nations and individuals that composed it. And imagining that in this they had struck on a large and safe generalization, they proceeded to formulate it in their well-known doctrine that 'to produce as much as possible and save as much as possible' of what was produced, was the universal law of the Applied Science of Political Economy,—true alike of the individual, of the nation, and of the world as a single economic whole. And so indeed it would have been had it been a true law; for the very essence of a scientific law is that it shall hold true universally, whatever be the size, range, or scope of the class of facts that properly fall under it,—whether, as in the present case, it be an individual, a nation, a number of related nations, or the world as a single whole. But if we examine it, we shall find that it was not a true law;—not even of the way in which an *individual* increases his wealth. Nor is this to be wondered at, for in the original constitution of their science they had illegitimately suppressed, as we have seen, one entire factor in the phenomena which the laws of wealth have to explain,—namely the factor of Consumption. What we have now to do, therefore, is to reintroduce

this element of consumption, and see if by its aid we can discover what that true law is, which shall apply equally to an individual, a nation among other nations, or the world as a whole.

In the first place, then, when we say that an individual man increases his wealth by producing as much as he can, and saving as much as he can, it would seem that the formula for the increase of wealth for the individual, at any rate, were quite simple,—namely to 'produce and save.' And so, indeed, it is as a mere shorthand statement for *practical* purposes, and so long as we do not use it as a scientific law from which logical deductions are to be drawn. But it will be observed that in this shorthand formula, the orthodox Economists have quietly dropped and suppressed as if it did not exist, the most important part of the transaction,—namely the *sale* of the product. So that the formula, when we want to use it as part of a Science, and not merely as a compendious working formula for everyday life, will have to be amended. Instead of 'produce and save,' it will now have to run 'produce, sell, and save;' or in other words (for the sale involves that some one intends to consume) 'produce, consume, and save.' But this as we have seen is the true law for the increase of wealth of the world as a whole; the only difference being that while in the case of the individual, the consumption has to be done by *other* people, in the case of the world as a single whole the consumption is done by the *same* people as those who produce. Now it is the same with a particular nation in trade relations with other nations. For although the shorthand formula here again is 'produce and save,' the scientific law is, 'produce, consume, and save;' the suppressed factor of consumption, which is as essential to the saving as the production itself, being done by the *other* nations. So that whether the saving, or increase of wealth, be that of an individual, a nation among other nations, or the world as a whole, in all cases alike it follows one and the same law, which

is 'produce, consume, and save,' and so is in harmony with our original symbol of the Wheel of Wealth, where production turns around into consumption, and the saving or increase comes out of the revolutions and alternations of *both*: and not, as with the orthodox Economists with their symbol of a Stick, where the increase of wealth of an individual, a nation, or a world, is figured as resulting from producing as much as possible, cutting as *little* as possible off its end, as it were, for consumption, and then carrying the rest forward as the saving; thereby not only confirming them in their delusion that their short-hand formula of 'produce and save' is a true scientific law, and that they may therefore suppress the factor of consumption with impunity, but running them as well,—when their doctrine is pushed to its logical consequences,—into the absurdity that *if all the world* were to consume as little and save as much as possible, and so fulfil to the letter the apostolic injunction of the orthodox Economists, we should have not a world of civilized men with lands cultivated to the highest point, machinery and the division of labour taking the place of hand labour, and the greatest possible amount of wealth produced, consumed, enjoyed and reproduced; but instead land lying uncultivated, machinery non-existent, and the world a world as of Red Indians or misers living on roots and herbs, and crouching to warm themselves over the few sticks with which they made themselves a fire!

Summing up this chapter, then, we may say that had the Orthodox Economists not been deceived by appearances into suppressing one of the essential elements of their Science, but had admitted frankly that in all cases whatever an increase of wealth can only come out of a continuous process of production *and* consumption, there would have been no paradox to perplex the student's mind; but by taking a short cut, and suppressing the middle factor of consumption, they have tried to make an essentially three-legged table stand on two legs alone,—with the result that when left to itself, it upsets and brings down with it

all the secondary laws, corollaries, and 'fundamental propositions' which they have first deduced from it and then piled upon it! In thus labouring a point which to the practical business man has only to be stated to be accepted almost as a platitude, my justification must lie in the fact that it is to this suppression of the essential factor of Consumption that all those fallacies of the orthodox Economy are due which have made it as a professed science not only false in one point but, as we shall see more and more as we proceed, false in all. But before I can leave with safety and confidence the paradox which this suppressed factor involves,—in the form of the abstract discussion we have just given,—it will be necessary to exhibit its workings in the concrete, as seen in the way in which savings are made and wealth increased in the actual intercourse of nations in trade relations with each other. And to this we will proceed in our next chapter.

CHAPTER X.

SOME CONCRETE INSTANCES.

WHEN Carlyle wrote his 'Past and Present' and his 'Latter Day Pamphlets' about the middle of the last century, the Orthodox Economists had already succeeded in persuading the Politicians, much to their relief, that the low wages, poverty, and periodical destitution of the working classes were an economic necessity, a piece of pure fate, as inexorable as death; and that the cause of it all was that wages being paid out of capital, and capital being fixed in amount, the share of it that could fall to the working man was a simple matter of arithmetic. You divided the amount of capital by the number of working men whom it had to feed, as a mother divides a loaf among her children; and just as the size of the loaf and the number of the children measure the size of the slice that falls to each, whereby if some received a bigger slice the rest would have to content themselves with a smaller, so was it with the wages of the working men. If some by their superior skill or the influence of their trades-unions received more wages, others they said would have to be content with less; and neither gods nor men, political agitators, parliament, nor philanthropists could alter it. It was their old doctrine of the stick, with a piece cut off the end in the shape of money and food for the payment of the workmen; and if the workmen insisted on demanding more than this, let them look to it, for

less would be carried forward as savings, and the wealth of the nation would in consequence decline. And the worst of it was that although the workmen were inclined to kick their foot through this piece of cheap and easy economic arithmetic, the great mass of intelligent people,—statesmen, economists, publicists, stump orators and all,—secretly believed in it, and did not see how it could be gainsaid. But Carlyle, in order to give point to his gibes both at the politicians and economists, wanted to know why it was that at that very time when the wealth of the country had been for a long series of years increasing 'by leaps and bounds,' and the warehouses and workshops of the North of England and the Midlands had been supplying the whole world with their woollens, their calicoes, their cutlery, their engines, their iron and coal and what not,—why it was that in a temporary glut of these commodities the great masses of the people over large areas, and especially in the streets and alleys of these very manufacturing towns, were on the verge of starvation: their bare backs showing through their ragged cotton shirts, in front of the warehouses where cotton shirts lay piled in stacks to the ceiling unsold, because they had not the wherewithal to pay for them. The question, it is evident, is one which concerns the distribution of wealth rather than its production: and as the answer to it is as much an affair of Politics as it is of Political Economy, I shall postpone its discussion until it reappears in its proper place later on in this volume. What we have to consider specially here is a somewhat different question, and concerns rather my own position than that of either the Politicians or the Orthodox Economists. The question put by Carlyle was mainly a political one, and in effect was;—How could so many people be starving and shirtless when the wealth of the country was so great? Ours is a purely economic one, and is;—How, if our doctrine be true that production must always keep time and pace with consumption, could wealth have so accumulated as to make the nation a supremely rich

nation when the consumers of that nation, even when in full work, could not from the lowness of their wages carry off more than a fraction of the consumable wealth that was continuously being produced and reproduced? How, in a word, could home production have outrun so far home consumption, if by our hypothesis production must be *limited* by consumption?

Now the answer to this is so simple that it seems almost incredible that anyone could have missed it. It was simply due, as every business man knows, to the enormous extent of the *foreign market* for English goods, over and above that of the home market. But the Orthodox Economists had expressly ruled out the *extent* of the market for consumption as a factor having any influence on the increase of the wealth of a nation,—as we saw from the quotations from John Stuart Mill on this head in a previous chapter,—while everywhere Adam Smith makes the same assumption. And the reason they ruled it out was, that as the production of wealth was limited by capital, and the wages for its consumption were paid out of capital, whatever was taken out of capital to supply the consumption of a foreign market, must necessarily be withdrawn from the capital engaged in supplying the home market; so that no extension of the foreign market could by any possibility increase the wealth of the nation as a whole—a prime fallacy drawn from the original datum of their Science of a fixed and rigid rod of capital from which if more were cut off for one purpose so much the less would be available for another. But if our symbol of the Wheel is the true datum for the solution of each and every problem of political economy, the mechanism by which the vast extension of the foreign market so enormously increased the wealth of England in the early years of the last century, in spite of the limited home consumption necessitated by the low wages of the great masses of the people, is quite simple. It consisted, in a word, in attaching the *national* wheel of wealth to a number of lesser wheels representing the *other* nations of the world, by means

of belts thrown across them as it were (as we see in the machinery of a factory), so that the consumption sides of these wheels formed what was practically one mammoth wheel, with England occupying the productive side for the time being, and all the rest of the nations taken together its consumption side. In this way the stimulus given to the productive side of the English wheel by this enormous demand for foreign consumption was so great as to tax it to the utmost to keep pace with it. Indeed the reason that England was able to whip up her productive capacity to the point necessary to keep pace with this world-wide demand for consumption, was that she had practically a *monopoly* of all the materials necessary to the production of the commodities which the other nations so much desired—the coal and iron, the machinery, etc., as well as the transport and shipping—in all of which the economic powers of Nature were imprisoned and packed in quantities enormous in proportion to the labour expended on liberating them and calling them forth. The industrial output of the other nations, on the contrary, consisted mainly of purely natural productions which owing to their abundance and the absence of transport were to be had almost for the asking, when exchanged with English manufactured goods. And accordingly, just as the spices of the East in the Middle Ages, which were so abundant and cheap in their own homes, were yet so highly prized and so valuable in Europe that they made the fortunes of Venice, Genoa, Florence, and the other Italian Republics who traded in them, so it was in the case of the English traders, who holding as they did a virtual monopoly of the manufactured goods which the foreign nations both of Europe and the East most desired, were, like men with loaded dice in their hands, able to get the advantage of the foreigners in every transaction: getting in fact the labour of scores or hundreds of foreign labourers and Orientals for one of their own; so that precious cargoes of ivory, furs, spices, sugar, wine, dried fruits, tobacco, and what not, could be had in

many places for a few trinkets, rags of calico, or strings of glass beads. And the consequence was that the wealth of England rolled itself up like a snowball, her wheel of wealth not only enlarging its circumference, but increasing the speed of its revolutions in a given time. And a further consequence was that as the monopoly of English products was in the hands of a comparatively few rich manufacturers, merchants, and shippers, while the foreign producers were for the most part a miscellaneous swarm of poverty-stricken hand-to-mouth workmen and agriculturists, the wealth of England could go on piling itself up, while they barely did more than mark time. And the reason of this, again, was that while the handful of English monopolists with their profits accruing in great lump sums, could turn them into more and ever more fixed capital and productive works at home or productive loans abroad, and so could add immensely to the economic powers of Nature they held in their hands from which wealth and profits were to be drawn; the swarms of foreign consumers on the other hand,—isolated, dispersed, and incapable of combination or organization,—were restricted in their productive capacity to scratching the soil with wooden ploughs, hunting elephants for their ivory, or wild animals for their furs, or planting their little fields with vines, tobacco, or sugar cane; and so were disposed to turn the advantage they derived from the exchange into the mere unproductive consumption of trinkets or ornaments for their persons;—or if they managed to save anything out of it in gold or silver, it would only be to hide it away against the evil day of dearth or extortion, or lend it to their Governments to be shot away in war. For although, as the orthodox Economists are so fond of asserting, the personal benefits of every exchange are mutual, else they would not take place, they are not, it is to be observed, equally *profitable* to both sides, or conducive to an equal increase of wealth—as anyone having dealings with a moneylender can testify! Indeed, as we shall see later, the mere concentration of a given amount of

capital in a single hand gives it an advantage in every exchange over an equal amount of capital dispersed among many hands, as a cannon ball has more efficiency than any number of dispersed rifle bullets of the same aggregate weight. And hence it was that England grew richer and richer as a nation in her trade relations with other nations, in spite of the fact that the great masses of her own people were so poor that they could not of themselves have taken off her hands more than a fraction of what she produced. And so our symbol of the Wheel with its necessary corollary,—namely that in its continuous running the productive side cannot outrun the consumption side,—is justified; only in this case of England, the consumption was kept up more by *other* nations than by her own. It was the same with Ancient Rome, where the nobles and knights grew richer and richer, both from their usurious banking and from their gradual acquisition of more and more of the mines, the vineyards, and the corn-fields of the conquered countries, even although the great masses of the Roman citizens themselves were so poor, that in spite of the free distribution of corn, they consumed little more per head than the gangs of slaves and freedmen who worked these mines, vineyards and corn-fields for their masters. The explanation is that consumption was mainly done by the rest of the world who were not Roman citizens, but whose private property was legally protected although they themselves were politically enslaved.

But an even more pregnant instance was that of the Southern States of America before the Civil War. For there you had an entire section of a country which had grown rich on the basis of a slave population whose only consumption was of as much cheap cotton as would cover their backs, and as much maize and molasses as would keep them in health—a land which had it continued self-enclosed and out of trade relations with the rest of the world, would have remained little more industrially advanced to-day than it was when the Red Indian roamed over it. For if all the production that was necessary

was such as was sufficient to supply the slaves and the 'mean whites' of which the population was composed, where was the increase of wealth to come from? Great fields of cotton, tobacco, sugar, and rice, would not have been made to arise out of the swamps and the wilderness for *them*: and as for the planters themselves, a few cultivated fields here and there would have more than supplied all that they and their families could consume: while a few scattered villas of imposing appearance and adorned with articles of ostentation or luxury would have as easily sufficed to keep up their authority and social prestige among their white and black dependents, as a few extra feathers, skins, or layers of war paint did those of the Indian chiefs. The consequence would have been that the country would have remained much in the condition of England in the Middle Ages before her shipping trade and the great mechanical inventions of the Eighteenth Century had opened up to her the markets of the world. But from the time that the Southern planters found that they could connect the productive side of their wheel with the consumption side of the cotton wheels of Lancashire, as well as with the sugar, rice, and tobacco consumers of the rest of the world (thus making by means of the belts thrown across between them one gigantic wheel of production and consumption), then it was that through this world-market for consumption suddenly thrown open, a Southern Confederacy arose, so wealthy and powerful, that it was enabled to sustain the burdens of a war which would have taxed the resources of even a first-class European Power; proving to us again that it is the *extent of the market for consumption* that is the source of the increase of wealth, whether of an individual among other individuals or a nation among other nations; and that this increase comes not out of Production alone, as the orthodox Economists teach (as this is only *half* the process), but out of a continuous wheel of Production *and* Consumption; the savings consisting not only in the addition to the fixed capital embodied

in improved soils, machinery, ships, railways, and means of transport generally,—which as we have seen would be the only form of saving for a nation if it stood alone by itself,—but including also the gold, and credits redeemable in gold, which when held against other nations are a distinct addition to its wealth, inasmuch as they can be converted at pleasure either into additional fixed capital or additional consumable goods, or both, as pleasure, convenience, or economic necessity dictates; precisely as in the case of an individual who saves and increases his wealth when in business relations with other individuals. And this in turn explains how it is that a nation may increase its wealth by 'leaps and bounds' either when most of its population are in dire poverty or even in a state of slavery; and so could not by any possibility carry off by their own consumption more than a small part of what is continuously being produced. For just as a man may live like a miser and yet increase his wealth by the credits which he holds against other men, so a nation may keep the great masses of its population on the wages of slavery and yet increase its wealth by the credits which it holds against other nations,—as we have just seen in Ancient Rome, the Southern States of America, and England in the early years of the last century. And thus we see that the history of States, instead of contradicting, supports our doctrine of the wheel, namely, that consumption must always regulate the pace of the production which in turn must keep time and balance with it; the only difference between the economic conditions we have cited and those existing in the most progressive States at the present day, being, that whereas then the foreign commodities in which the gold and credit savings were paid found their way mainly into the hands of the few, at the present day they are more equally diffused among the many—nothing more.

But as for the orthodox Economists, the fallacy in suppressing the element of Consumption and in representing savings and the increase of wealth as coming out of Production alone,

can only be compared, as we have seen, with the fallacy of the generations of men who were imbued with the belief in perpetual motion,—to which indeed it is an exact parallel. For both have dropped an essential element from the premises on which their conclusions were based; the perpetual motion schemers that of friction, the orthodox Economists that of consumption. The former said in effect;—if we can only transmit our original force undiminished through a series of accurately and cunningly adjusted wheels and pulleys to the point from which it started, the motion so begun and transmitted must go on for ever,—not knowing that it cannot be so transmitted without losing some of its power through friction; the latter said, if we will only produce and go on producing at the same time that we save and go on saving, we shall increase our wealth accordingly,—forgetting that you cannot save anything until your product is sold or *consumed by someone*, as otherwise you would be producing for the amusement of seeing your products decompose and go bad on your hands! The former drew their conclusions from half the factors involved in their wheels,—namely from the transmission without the friction; the latter from half the mechanism involved in theirs,—the production without the consumption.

And this brings us to the last of the principles of our Applied Science of Political Economy which it is necessary to enunciate before we can proceed to bring them to bear in their combination, and as a single organic unity, on the practical problem of Free Trade and Protection, as well as on the criticisms of the various schools of the orthodox Economy which we shall have to pass under review, and which will be found in a later part of this volume.

CHAPTER XI.

THE WHEEL OF WEALTH AS A WHOLE.

IN our chapter on the Pure Science of Political Economy we found, it may be remembered, that the increase of wealth in general was to be measured by the number of revolutions of the wheel in a given time; and that to this end not one factor only but all the factors—Production, Consumption, the powers of Nature, and the powers of Man—must conspire and keep time and step together. And now we have to see that the same holds good with our Applied Science, where the nations in trade relations with each other have wheels of every variety and degree of disproportion or distortion, some being naturally rich on the productive side, but starved and shrivelled on the consumption side, or *vice versâ*; others fruitful in human invention, but poor in the productive capacity of their lands or mines: others again worked to the limits of their productive capacity by wise political regulations; while others are ruined by intrusive politics clogging the wheel at this or that point of its course, and so on. But of all these national wheels alike, what we have to observe is that although Consumption is the *controlling* factor, and the extent of the market, in consequence, the central fact regulating the pace of the other factors and of the wheel as a whole; still, for the greatest possible increase of wealth production, all the other constituent factors which

we have enumerated must keep up to concert pitch, as it were—the powers of Nature, powers of Man, invention, organization, technical skill, division of labour, etc.—in the same way as if the will and brain power are to be most effective in the ordinary work of life the bodily powers as well must co-operate in the degree to which they are required. And from this it follows that however unevenly balanced a particular national wheel may be, nevertheless if the wheel is running more quickly, and wealth is being increased in consequence, *all* classes of the community must benefit, however disproportionately, whether it be landlords, capitalists, or wage-earners; while if the wheel is running more slowly and the general wealth is decreasing, all classes alike must suffer; thus confirming the uniform experience of the world in all ages, namely that in what are called 'good times' all the sides and factors of industrial activity, and all the classes or persons engaged, tend to flourish together, whereas in 'bad times' all alike tend to be depressed together. Now I am anxious to lay special emphasis on this point inasmuch as it is entirely opposed to the doctrine of the Orthodox Economy, one of whose cardinal principles,—deduced from its symbol of the rigid stick,—is that if any one of the economic classes into which a nation is divided gets more wealth, the others must get less; that profits, for example, can only rise if wages fall, or rent rise if wages and profits fall, or fall if they rise, and *vice versâ*, and so on;—a quite necessary deduction, I admit, from the point of view of those who figure wealth as a given length of rod divided into several parts, but not so from the point of view which I am in this volume seeking to establish, namely that of a continuously running wheel, where it seems almost to be labouring a platitude to affirm that according to the speed of the running all its parts alike can and indeed must increase or decrease together. For if the increase of wealth depends on the amount of production and consumption in a given time, and this production and consumption are owned and enjoyed by individuals, it follows

that the increase of wealth is measured by the rapidity with which it passes through the hands of these individuals,—the quickness of the 'turnover' in the case of the producers, and the quickness with which it comes and goes through the hands of those consuming it; and further as every man on the wheel is, as we have seen, at once a producer and a consumer,—a producer when at work and a consumer in his leisure hours,—it follows that when the speed of the wheel is increased all classes alike will enjoy more wealth, and when it is decreased all alike will enjoy less; or in other words, that *the rents of landlords, the profits of capitalists, and the wages of workmen must all rise or fall together*; and not, as the orthodox Economists have it, that if one or more of them rise the rest must fall, and *vice versâ*. I am of course speaking of the *laws* of distribution of Political Economy as such, whether of the pure or the applied science: but as in actual life the result is often in glaring contradiction to these laws, it is necessary that I should now trace these contradictions back to their source, if I am to make these laws, and especially the law above enunciated, fully satisfactory to my readers as the true and natural final laws of Political Economy.

But first let us enumerate some of the causes which are universally admitted to produce national economic prosperity or adversity, and which, at whatever point they begin to operate, are speedily carried around and propagated to every other part of the wheel. Wealth, for example, is lessened for *all* classes when the production side of the wheel is obstructed and slowed by bad harvests; or by the destruction of fixed capital—as of machinery by fire, or railways or bridges by war or floods; or of credits by rash speculations or the over-production of unsaleable commodities; or by the destruction of a part of the working population by war or pestilence; and so on. It is lessened also for all classes if the obstruction first shows itself on the side of Consumption; as, for example, by the heavy taxation of consumable goods; by the extortion of

the fruits of labour by rapacious despots or pashas, as in Turkey and in Oriental countries generally; by inadequate wages, as in régimes of slavery or serfdom, or their all-round reduction; or by *disproportionate* saving over large areas of population, induced by religious fanaticism, panic, the fear of change, or the want of provision for the future; or again by close monopolies pressing to the utmost their illegitimate economic power over wages and prices, and the like. In all these cases, at whatever point the mischief may happen to arise, it is quickly propagated all around the wheel until it involves every class in the community. It is the same when the general wealth is being increased. It may take its rise on the side of Production; as, for example, by new inventions, as the introduction of steam power and electricity; or by new chemical processes of far reaching commercial value; by the influx of capital into new countries for the opening up of railways, canals, mines, fertile lands, or works of irrigation; by the discovery of new gold mines; or by the better administration of justice and the enforcing of severe laws against commercial dishonesty, etc. Or, again, the increase of wealth may take its rise on the side of Consumption; in the high rate of wages, for example, of the great masses of the population (provided always they are not out of proportion to the skill of the workers and the powers of fixed capital to keep pace with them); or of better harvests among small peasant proprietors; or of cheaper food supplies owing to greater transport facilities at home, or free importations from abroad, and the like; the only difference in the propagation of wealth through all classes at a time when wealth is increasing and when it is diminishing, being as we saw in a former chapter, that whereas when it is diminishing, it matters not whether the immediate cause is located on the production or consumption side of the wheel; when it is increasing, on the contrary, if the immediate cause lies in some fresh impetus having been given to the productive side, it will have no effect, or only a temporary one, unless

provision is made for the increased production being carried off by a corresponding consumption,—if not at home, then abroad. For Consumption, as we have seen, is the controlling factor, the brake on the wheel of wealth, inasmuch as wealth if produced will not continue to be *reproduced* unless there is a corresponding increase in the wages or incomes by which alone it can be consumed.

Now the above instances and examples are the veriest commonplaces of the industrial world and of business men everywhere, but as no symbol has been found by which to unify them, they have remained merely as isolated experiences without any law or principle to bind them together and give them a scientific unity and harmony. And although I venture to think that our symbol of the wheel does this for the business world, I am aware that for the students of Political Economy this inner unity and harmony is apt to be obscured by the false importation into the subject of material which properly belongs to the domain of Politics, and which we must carefully separate out if we are to avoid the appearance of contradiction to existing facts which this intrusion of foreign matter lends to our doctrine. Indeed all this extraneous material must be ruthlessly weeded out if we are ever to get either a Pure or an Applied Science of Political Economy as a sub-department of the wider Science of Civilization or Sociology. In later chapters I shall discuss these aspects of our subject in detail in my criticism of the authors with whose names they are more closely identified, but for the present I shall restrict myself to meeting a few general objections with the object of giving the reader some indication of the sort of thing I have in my mind.

Now, the first objection that would naturally occur to our doctrine that when wealth is being increased *all* classes alike tend to benefit by it economically, and when it is declining all alike tend to be the poorer, is one bearing on slavery and serfdom. For how, it will be asked, can it be true that the

wealth of all classes of the population rises or falls together; when the slave or serf neither received more food, clothing, nor produce, when his master was increasing his wealth nor less when he was losing it? This question, it must be obvious I think, on reflection, does not strictly belong to the Science of Political Economy at all. It is for kings and statesmen to answer the question, why, by brute force or legislation they thus drove a wedge into the economic wheel at those stages of civilization in which slavery and serfdom prevailed? Political Economy as such can take account only of the *effects* of these outside obstructions on the movements of its wheel; it has nothing whatever to do with the obstructions themselves as causes, any more indeed than the law of gravitation has to do with a house which so securely supports a stone on its roof that it refuses to let it fall to the ground. But how about the workman of the present day, it will be asked, who fulfils all the conditions of economic freedom in his bargain with his employer for wages? Why do his wages not keep time and step with the profits of his employer, rising as they rise and falling as they fall? Or why, again, do they bear a different proportion to the earnings of the employers in one country and another? The answer is still the same; it is due to the intrusion of extraneous influences which have nothing to do with the Science of Political Economy—whether they be political, legislative, or psychological influences, as, for example, the laws against combinations of workmen; or because wages move along the sluggish lines of evolution and custom which dominate the minds of both workmen and employers alike, and cause the movements of the wheel on one side to be wanting in ease and fluidity compared with those on the other. The remedy lies only in counter legislation, or in the workmen themselves laying to heart that golden sentence of Emerson, that it is 'the imbecility of the masses that invites the impudence of power.'

Another objection to our doctrine may take the form of the

query;—How if each consumer on the wheel is not necessarily a producer as well, but if on the contrary great numbers of the population are consumers only, not producers;—do their incomes rise and fall with the rest of the community? And if not, why not? The answer again is simple; these men, however excellent in other respects, are economically speaking not *on* the existing wheel of wealth at all; they may, or indeed must, have been once, or their fathers before them, but for the present they rather stand around it like tax-collectors taking tribute from it: and whether they get more or less from it than is their due, or whether what they get shall keep step with the general increase or decrease of wealth, is a matter for the legislator, not for the political economist. It is the same too with the question of Population when it has been allowed to exceed the numbers that can be effectively employed in productive labour where the fixed capital of a country is working at its highest possible speed, and is being taxed to its utmost resources. For here again numbers of people are virtually consumers only, and (when work has to be found for them) not full and effective producers; and so far are a pure tax on the economic powers of the country,—the subject of Politics and Legislation, but not of Political Economy. They are no more the subject matter of Political Economy, indeed, than a man's personal or household expenses are a part of his proper business or profession.

The above instances I have noted in passing merely to show that the attempt to get a Science of Political Economy out of a conglomerate mass of Politics and Political Economy (as the Orthodox Economists have tried to do) where the Politics depend on the caprices of mere Power as such,—political, social, or industrial,—while the Political Economy is a question of scientific Law, is an impossibility.

Leaving our demonstration, therefore, where it stands for the present, namely that the sole natural law of the distribution of wealth in a pure science of Political Economy is that

the wealth of all classes tends to rise and fall together; and contrasting it with the opposite doctrine of the Orthodox Economists, namely that as the one rises the others must fall, I would again lay emphasis on the difference that is made in the truth or falsehood of every proposition of a deductive science according to the character of the original symbol or formula from which it starts: whether for instance, as in the present case, it is from the symbol of a continuously running wheel, or, as the Orthodox Economists have it, from a series of rods laid end to end from which fractional parts have to be cut off before the remainder can be added in turn to the next and succeeding rods. And this will explain why it was that in a preceding chapter I laid so much stress on the distinction between a science founded on a number of factors each of which had a *positive* function, and one founded on factors one or other of which was suppressed, or had assigned to it a negative function only. And the present is a case in point. For although in itself it would seem to make no difference in the result whether you choose to regard the increase of wealth of a nation as due to the co-operation of two positive factors, production *and* consumption, or to the balance left over from a positive and negative one, production *minus* consumption; any more than it does if you regard the number ten as resulting from five plus five, or from fifteen minus five; yet it makes all the difference the moment you try to get it into a concrete mathematical symbol or formula from which logical deductions are to be drawn. In the first case, when wealth is being increased, it will have mounted up like a snowball or rolled itself up like a parti-coloured stair carpet, where each layer added to its circumference will be made up of all parts alike; while if wealth is decreasing, it will melt or unroll itself again with a loss in which all its sides or aspects will participate. But in the second case, on the contrary, where some part has to be cut off and *deducted* each time, before the balance can be added on to the next, you cannot get a steady increase; for

with the consumption neutralizing a part of the production, the wages a part of the profits, and the profits a part of the wages, the less that is cut off each time necessitates that the less will have to be produced next time to make up for it; and our aggregate of wealth, which started out with decent proportions, will in our efforts to increase it by saving, become less and less, tapering at each remove, until it ends in a point; so that if all the world turned misers, the wealth of to-day, as we have seen, would in ten years, say, have reduced itself for each individual to a piece of prairie land, a potato patch, a wigwam, and a bear's skin!

In the present and foregoing chapters we have set down as many perhaps of the principal laws of Political Economy both as a pure and as an applied Science, as it is expedient to set down at this stage of our journey, with no further development of the positions raised than is necessary to avoid confusion and bewilderment; leaving their further explication and development to the succeeding chapters in which we shall have to apply them critically to the successive systems of the Orthodox Economy which we are to pass under review. These systems I propose to divide for the sake of convenience into three: the stage represented by Adam Smith and his predecessors, the Mercantilists and the Physiocrats; the stage dominated by the works of Ricardo and Mill; and the recent and present transitional stages in which the Orthodox Economy, like Orthodox Theology after the Reformation, is seen splitting itself up into a number of subordinate schools, characterised by contradiction and uncertainty, but without any essential change in their critical method or principles. This last stage is represented by such names as those of Jevons, Marshall, Böhm-Bawerk, Clark, and other distinguished exponents belonging to the Austrian and American schools. Of the thinkers outside the Academic ranks who have been most influential in breaking down the authority and prestige of the Orthodox Economy, the names of Comte, Karl Marx, Henry

George, Ruskin, Carlyle, Gunton, J. M. Robertson, and Mr. Hobson, most readily occur to one. But of all these, the only ones who coming to their subject from the *inside*, as it were, as economic specialists, have reached practically the same general conclusions on many, if not all, of the aspects of our subject, as I have from the *outside*,—from the standpoint of Civilization in general and Sociology,—are Mr. Gunton, and especially Mr. Hobson; all of which will appear as we pass these writers successively under review.

END OF BOOK I.

PART II.

FREE TRADE AND PROTECTION.

CHAPTER I.

GENERAL CONSIDERATIONS ON EIGHTEENTH CENTURY THOUGHT.

IN opening this section of our subject the first general position which I desire to establish is this, that it would have been almost a miracle for any man living in the time of Adam Smith to lay even the groundwork of a science dealing either with political, social, religious, or moral problems which should have a permanent and final validity and authority for men living at the present day; and above all a Science of Political Economy. In the first place the great conception of Evolution with its dynamic point of view had not yet, except perhaps in the mind of Goethe and a few French Sociological Thinkers, even dawned on the intellectual world, much less had any attempt been made to reconstruct the distinctly human sciences of Religion, Ethics, Politics, or Economics, on the lines of its fundamental principle. And the consequence is that no system of thought having its origin and development in the Eighteenth or first half of the Nineteenth Century (always barring of course the Mathematical and Physical Sciences, for reasons which we have given in our first chapter), but has become hopelessly antiquated and superannuated for readers of the present age: and the antiquity which was once the consecration of all human thought and institutions has now become their tomb. Except therefore as marking the stages

through which the intellectual development of mankind has passed on its way, these old systems in themselves serve only to choke up libraries, to waste time, and to cumber the ground. Indeed there is no need for us to refute them, they have done that for us themselves; each system swallowing up the one that went before it like a succession of perpetual motion schemers, and with net result, as in the case of the fabled Kilkenny cats, —zero, or tails only! For where now are the political doctrines of 'natural rights,' the 'state of Nature,' of abstract 'liberty and equality,' which gave rise to as many new constitutions and forms of government in the Nineteenth Century as those they overturned at the time of the French Revolution, and which so permeated the minds of men in the days of Adam Smith? They are one and all more or less discredited, and are being gradually superseded by the doctrine of Evolution and the Science of Sociology which are now gathering Politics as well as the other Sciences into their ample folds. Held in their decadence by Herbert Spencer alone among thinkers of the first rank, and being in their essence diametrically opposed to his own doctrine of Evolution, he went to his grave in despair because his adhesion to this Utopia of 'natural rights' which had been the creed of philosophical radicalism in his youth, had ruined his influence in the domain of those social, moral, and political sciences which lay nearest his heart, and which were regarded by himself as the crown of his labours. Where, again, is the natural theology of Paley and his successors, or the systems of Theism, Atheism, and Materialism to which Voltaire and the Encyclopædists in their various ways gave their imprimatur? Or the individualist Psychology of that time, which culminated in the individualist Ethics of Bentham and the Mills that followed on it? Gone too, and swallowed up in the same maelstrom of Evolution. It is the same, too, with the systems of Metaphysics and Ontology of Kant and Hegel, profound and suggestive in many ways as they are, but which are at last passing away even in those

academic haunts where they lingered so long, and for whose scholastic dialectics they were so well adapted; retreating before the rising tide of a philosophy founded on the new way of looking at things through the eyes of the Evolution Psychology. For in spite of all the labour they expended in trying to solve the Problem of Existence in the ultimate form into which they had cast it,—namely as to how a bridge could be built which would get them logically across from 'the Many' to 'the One,'—even they were not able to span the gulf by the elaborate cantilevers which they threw across from the opposite banks (for they would never *quite* meet in the centre), any more than Herbert Spencer could by his more naive and unsophisticated subway of an Unknown Cause.

And now we have to see that to this death and oblivion of all distinctly Eighteenth Century thought no exception can be made in the case of Political Economy. For when Adam Smith wrote his 'Wealth of Nations' the type of Modern Industry to which every Applied Science of Political Economy must now be adapted—if it is to be of any use in Politics and Legislation—had not even been born, but was only just giving herald of its advent on the horizon None of the great inventions had yet appeared, or if they had, they had scarcely yet been applied to manufactures. Hand looms, hand lathes, primitive furnaces, were still the order of the day and were typical of manufacturing industry generally; and it was only when a particular product happened to require several distinct operations, and the labour could be organised by bringing the workmen all closely together under one roof, and keeping each to a particular task where practice would make perfect—by the division of labour, in short,—that the amount of the product would exceed very much the mere physical power and skill of the labourer by himself: unlike the present day where the powers of Nature embodied in machinery will add gratuitously a thousand units of product for every unit added by the workman. The wealth of England, accordingly, in those days

was due rather to her carrying trade and to the extent of her foreign markets, than to her home trade or the actual surplus of her manufactures. It was rather to the *monopoly* of these manufactures than to their actual amount, that the wealth which was poured into the lap of England was due; in the same way as the monopoly of a few mines, of Potosi and elsewhere, made the wealth of Spain in the Sixteenth Century, and the monopoly of silk manufactures and wines made that of France. In other words, the wealth of nations in the Eighteenth Century was due—so far as manufacturers were concerned—to virtual monopoly rather than to the actual amount of powers of Nature which they had succeeded in enlisting in their service. The only source of wealth in which the powers of Nature could be said to lend and spend themselves freely over and above the mere physical labour and skill of man, was Agriculture. But as this natural increase, due to the free gifts of Nature, went to the landlords in rent, all the rest of the community,—barring the merchants who skimmed off the profits accruing from the monopoly of manufactures and the foreign trade,—were barely able to replace by their labour more real wealth (in the sense of 'value in use' as distinct from 'value in exchange') than was the result of their own physical exertions; inasmuch as each of their hand looms and other crude machinery, instead of turning out per man as much in a day as would serve a thousand families, as is the case with the machinery of the present day, turned out comparatively little more than would minister to the necessities of the man himself and his family who used it. The consequence was, that as Agriculture was the main source of the natural increase of wealth over and above that of ordinary human labour, and as this wealth went entirely into the hands of the landlords, and as further the means of transport from foreign countries were at once both slow and imperfect, what the nations had most to fear was a series of bad harvests at home or abroad, but especially both together. For in this unfortunate conjunction,

the great masses of the people, as in India at the present day, were brought within sight of actual starvation. Now at the present time all this is reversed. Instead of the powers of Nature lending themselves only or mainly to the assistance of man in Agriculture, they lend themselves a thousand times more to his assistance in Manufactures; instead of the corn crops of the world being his chief source of anxiety, they are now, owing to facilities of transport, his least; instead of the savings in which the increase of national wealth consists coming mainly from Agriculture and Monopoly, they now come from the normal output of manufacturing industries: and finally instead of the product consisting of raw materials of food and clothing which can be stored and housed, and which will keep for a while,—as corn, cattle, wine, timber, etc.,—it consists now even more of manufactured goods which will not keep, and if not at once used and consumed will speedily begin to decay. But more important than all for the Science of Political Economy is the fact that in the time of Adam Smith and before the age of machine industry, the increase of wealth was of an *intermittent* character, being emitted in a series of spurts as it were. The corn, for example, which took six months from the planting of the seed to the harvest, had to supply the population for the *next* six months; the cattle and sheep also were only intermittently produced, having their seasons of reproduction and increase; and all this was, superficially at least, totally unlike the increase of wealth at the present time, where corn and cattle from all parts of the round world between us and the antipodes, come pouring in on us at all times and seasons, and are consumed and disposed of as quickly at one point of the circumference of the world as they are produced at another. And the same is still more true of the manufactured articles of food and clothing and other goods that will not keep, and which are consumed as fast as they are produced, and produced as fast as they are consumed.

But what has all this to do, the reader will ask, with the

Science of Political Economy? This namely, that anyone contemplating the construction of a system of Political Economy having for its end the increase of wealth, would if he took things merely at their face value and impression, have proceeded on an entirely different basis at that time from what he would at the present day. The amount of saving which represented the increase of wealth he would figure to himself as coming out of *definite separate quantities of products*, the result of definite separate harvests; and in the case of sheep and cattle, of definite separate years or seasons; and so the whole process of wealth production would take shape in his mind as so many rods of varying lengths laid end to end from year to year, each rod representing a year's produce; and the less that was consumed of these rods each year, the greater amount there would be to carry forward to the next and the succeeding years. And the conclusion of the whole matter for him would be, that whatever laws he discovered for his projected Science would have to be deduced from facts which could be summed up in the formula of "produce as much as you can, and consume as little as possible." On the other hand anyone coming fresh to the subject to-day, and taking a survey of the way in which wealth was being increased, would be struck by the general fact that it was being thrown off from *a continuous wheel of production and consumption*, that is to say, of things that were constantly being produced, sold, and consumed, and that the amount of the increase of wealth depended on the rapidity of the 'turnover,' that is to say, on the rapidity with which the products were produced, sold, consumed, and reproduced. Or to put it in a word, anyone coming to the subject at the time of Adam Smith would have said that the object to be aimed at in an Applied Science of Political Economy was—how to produce as much as possible, and refrain from consuming it as long as possible; whereas at the present day the object is—how to produce and consume as much and as quickly as possible.

Now although it was quite natural that Adam Smith, like all persons living before the age of Machine Industry, should think that the saving by which the increase of wealth is effected must be drawn directly out of Production, instead of out of the double process of Production *and* Consumption, he need not necessarily have done so; for the most casual reflection would have taught him that even the saving of an individual can come only after the product has been sold, and so consumed—although that consumption is done by some *other* person. Had he not rested content, therefore, with a mere surface impression but had felt it necessary to probe the process of wealth production and increase more deeply, he would have escaped the fallacy into which he fell, and which has been perpetuated through the long line of his successors to the present day. But it so happened that just at that time a new system of Political Economy appeared in France, having for its object the reversal of all the old principles on which the wealth of nations had hitherto been based:—principles which were then, owing to the changed conditions of the Industrial world, everywhere falling into disrepute. This was the system of the Physiocrats, as they were called, which was introduced by Quesnay, a French physician of the time of Louis XV.; and it numbered among its adherents, Turgot, Morellet, the elder Mirabeau, and many of the most distinguished men of the time. Now Adam Smith, who with Hume had kept himself all along closely in touch with French thought, was so completely swept off his feet by the plausibility of this new system of Political Economy, that he gave himself no time to dig more deeply down to the absurdities which it concealed, but, as we shall see, practically swallowed it in all its essentials. Now, were I to affirm that the orthodox Political Economy of the present day is but a developed form of this old system of the Physiocrats, I should be met with a stare of mingled amazement and incredulity; for by the orthodox Economist this system is regarded as being as dead as that of the

Mercantilists which it superseded. And yet I should be quite right in my contention: for the difference in essential principle between Adam Smith and these Physiocrats,—as we shall see, in spite of the elaborate affectation of disagreement with which he drew up his objections to their system in detail in a series of four or five propositions,—is infinitesimal. So deeply, indeed, was his 'Wealth of Nations' permeated through and through with the principles of the Physiocrats, that he distinctly declares that their system "with all its imperfections is perhaps the nearest approximation to the truth that has yet been published upon the subject of Political Economy."

But if this be true, how, the reader will ask, do I account for the fact that Modern Political Economy traces its pedigree back to Adam Smith, instead of to this discredited, superseded, and now quite forgotten system of the Physiocrats? The answer is simple. Adam Smith like the thoughtful, careful, and laborious student and observer he was, devoted years of his life to going about among the landlords, capitalists, government officials, bankers, and men of business generally with whom he had acquaintance, or to whom from his position later as Commissioner of Trade he had easy access, and ascertaining from them personally, or from the statistics with which they supplied him, all kinds of existing business relations between landlord and tenant, capitalist and workman, all sorts of details of banking and retailing, of the profits of stock and the wages of labour in different employments, as well as the causes of their differentiations, and so on. And these he proceeded to generalise much in the same way as the thoughtful special correspondent of a newspaper in the present day might do when sent out by his chief to report on the methods and results of the different specialists in their several departments,—whether of trade, of manufacture, of agriculture, of science, or of art,—for the benefit of the general public who having practical experience of their own particular walk in life only, are anxious to get some general idea of what, why, and how other men are

doing in theirs. And these general principles and methods, supplemented by carefully thought-out reflections on currency, taxation, governmental regulations, tariffs, colonial management, and the like, Adam Smith, when he came to write his book, proceeded to set in the general framework of principles directly drawn, as we shall presently see, from the system of Political Economy of the Physiocrats, with which they seemed in his mind of all systems best to harmonise. But the reason they seemed to harmonise so well was, that the facts and the theories were at bottom the two *complementary* aspects of the same thing,—namely of the general condition of industry before the age of machine production. The theory of the Physiocrats, in a word, was but a superficial generalisation of the facts, while the facts lent a superficial gloss to the generalisations of the theory. The theory and the facts fitted each other much in the same way as the rules of grammar or of music in a particular age or stage, reflect the practices of the accredited writers and musicians of that age or stage of development of these arts; but the result was neither a Pure Science nor an Applied Science of Political Economy which would hold true for any and every stage of industrial development, and under all political or social conditions, but only for industry at a particular stage.

And the consequence of all this for Adam Smith and the future of Political Economy was this,—that his successors struck by the range and accuracy of his knowledge of different businesses and industrial employments, and the superficial harmony which obtained between his theory and the facts of which it was but the summary and shorthand expression, embraced them both as parts of a single harmonious whole, and transferred the encomiums, which justly pertained to his admirable digest of industrial facts, to his theory as well; not perceiving that the theory in which the facts were encased really belonged to the Physiocrats. And with this further result, that when industry had entered its full-fledged stage of

machine production, and the increase of the wealth of the nation proceeded, as we have seen, on a different and even antagonistic principle, his successors, now that his name had become a classic, clung to his abstract theory, which was really in its essence that of the Physiocrats, developed and expanded it, and stamped it with the hall-mark of academic orthodoxy, at the very time that they were repudiating the abstract system of the Physiocrats in its raw state, as crude, antiquated, and obsolete. So that it is really this system of the Physiocrats, disguised by the superficial modifications which we shall presently see Adam Smith made in it, which dominates the Political Economy of the orthodox schools to this hour. But as it would be unfair to the illustrious memory of Adam Smith to leave this inputation undemonstrated, I propose to pause here for a moment to consider in detail what their theory was, to point out the minor matters in which Adam Smith differed from them, and to connect their theory with that of the 'Mercantilists,' as they were called, who preceded them; and so by linking up their doctrines both with those which preceded and those which followed them, to make the evolution of the science more complete. By this means I hope still further to exhibit the impossibility of those who believe in the doctrine of Evolution ever going back to the Eighteenth Century for any body of distinctly human doctrine whatever,—and not less so for Political Economy than for any other subdivision of the Science of Civilization or Sociology. For the doctrines both of the Physiocrats and of Adam Smith being but the superficial reflex, as of a signet ring, of the industrial conditions of the particular time in which they lived, and these conditions, as we have seen, having almost entirely passed away, the doctrines which correspond to them ought long since to have passed away also. Why they did not do so, we shall see in detail as we proceed.

CHAPTER II.

THE MERCANTILE SYSTEM.

THE doctrines of the Physiocrats which, as we shall presently see, Adam Smith adopted almost in their entirety, cannot be given their proper place in the evolution of our subject without some passing reference to the doctrines of the Mercantilists who preceded them, and out of antagonism to whose doctrines the theories of the Physiocrats sprang with that one-sided energy and zigzag of reaction by means of which alone before the days of Evolution, like the tacking of sailing vessels before the days of steam, all truth seemed fated to advance. Now of this Mercantile System it may be said in general that up to the time of Adam Smith, although falling more and more into decay in the extremer form at least,—owing to the fact that the industrial conditions in which it took its rise had largely passed away,—it still remained not only the theory but the practice of most European States. And as it will serve to illustrate one or two of the main principles which it is the object of this volume to enforce, I may perhaps be permitted to dwell on it here for a moment. These principles are, first, the impossibility of divorcing in practice the laws of Political Economy whether Pure or Applied from the larger considerations of Politics, Civilization and Sociology; secondly, that the theories of the Mercantile System were not only the germ from which Political Economy has hitherto developed,

but that they must be the guiding principle of its evolution so long as nations exist as separate entities struggling to maintain each its own individuality in the midst of other States.

I am of course aware that no system has been the theme of more gibes among the orthodox Economists who have followed in the foot-steps of Adam Smith than that of the Mercantilists, which they have everywhere held up to ridicule as being not only from an economic but from a political point of view the most puerile and exploded of superstitions. It will be my aim in this chapter to reverse if possible, or at least to modify, this all too lightly entertained conviction.

To begin with, then, I would point out that until the millennium of peace and goodwill has arrived for mankind, each nation while co-operating with other nations as far as possible in the general work of civilization must have as its primary object to hold its own in the struggle for existence, to protect itself against the aggrandizements of other nations, as well as to increase among them its own authority, dominion, or prestige. If this be so, it is obvious that no nation can pursue a number of ends with equal indifference, as a man of means and leisure can in private life, but must arrange its affairs, like a thrifty housewife, in a scale or hierarchy of values, from the all important down through the various degrees of the less important to the comparatively or absolutely indifferent; and further, that the means employed, whether in curtailing the freedom of individuals or in relaxing it, must be chosen entirely with a view to their relative adaptability to these ends. At the present day no liberty for example can be permitted to individuals to desert to the enemy in time of war, or to hand over their arms or ships to them either for a pecuniary or any other consideration whatever; nor could it at any age of the world. On the other hand anyone has perfect liberty to-day to sell or buy any of the ordinary articles of commerce as he sees fit, with no one to say him nay; or to move in and out

among his neighbours in the street as he pleases, provided always he does not interfere with the equal liberty of others. But this was not always so; people could not move in and out among each other in the street as they pleased or where they pleased, but had to observe priority and degree of rank and position in order to minimise the danger of constant breaches of the peace. Nor could they buy and sell what they pleased, where they pleased, or how they pleased; the amount of liberty in this respect permitted them, whether much, little, or none at all, depending strictly on the extent to which that liberty would advance or retard the end to which the trading was the means.

Now in no system of Political Economy, I will venture to say, have the principles of the Science been better adapted to the end the nations had in view at the time than in the system of the Mercantilists. But in order that we may get the facts in the right focus for perceiving their general bearings, it is necessary to ask at the outset:—firstly, what was the end the nations had at heart when they all with one accord adopted the Mercantile System; and secondly, to what extent did the special economic expedients they employed enable them to realise that end—when compared, that is to say, with any other possible economic means or expedients, past, present, or prospective?

The first question presents no difficulty, for the supreme *end* of States then and now was national independence, solidarity, security, and prosperity, both in peace and war. As for the means employed, these would naturally follow out of the necessities imposed by the end, and were and still are, first, a sufficiency of armed men and stout hearts ready to respond when called upon; secondly, kings or other executive authorities to watch over and direct them; and lastly, the sinews of war to back them. Now these three factors are of supreme and equal importance, but it is in the sinews of war that the necessities of Politics come in contact with the

Political Economy of the Mercantilists, and are seen exercising their control over the evolution and development of the methods, the principles, and the expedients of that system, precisely as these necessities of Politics prescribe the system of laws which mark out the duties, the responsibilities, the liberties, the restraints, and the relations of men in their internal civil affairs: the difficulties which attended the levying and collecting of the sinews of war prescribing the relative amount of restraint or freedom of trade. What, then, were these difficulties? In the first place, nothing but the actual gold or silver coin was of any value in meeting the necessities of the State either for defence, aggression, or internal administration; and the difficulty consisted in laying hands on it when it was wanted. It could not be raised at a moment's notice as at the present time, by the issue of securities, exchequer bills, or what not, on the credit of the State, to be taken up by its own subjects or by foreigners. For at the time when the Mercantile System took its rise, neither credit nor security was anywhere to be found. To begin with, there was not, in the Northern nations at least, even the rudimentary beginnings of that organized system of banking and credits which to-day is spread like a web over all the nations, linking the commercial, industrial, and financial world together; and if there had been, there was no security that any of these credits would ever be redeemed. Indeed there was neither in the political, the religious, the social, nor the material conditions of the time the least assurance anywhere to be found that a single coin would pass from the hand that held it to the hand that might hold the credit against it. On the contrary if left to themselves all these conditions seemed as by a kind of fatal unanimity to conspire together that it should *not* pass. To begin with, there was no way of knowing the financial or industrial assets of either governments or individuals, for the affairs of each in the darkness of these semi-barbarous times were as vague and uncertain as the

movements of ships on midnight seas. There were neither financial storm signals to warn creditors of unseen dangers, nor fine weather ones to tempt them to put out to sea. There was neither security for movable goods against the rapacity of man, nor for the crops and harvests against the uncertainty of the seasons. With the nations always at war with each other, there was no code of international law, and certainly none for the payment of national debts, which if they could not be collected at the sword's point were repudiated. Debt collection of any kind in fact as a function of the central government was either unknown or was a fiction. Even the king's writ would not run farther than his own domain, or to the borders of the estate of his nearest rebellious baron.

Nor could the Church afford any security or help to the creditor. For although she took good care by means of interdicts and excommunications to collect her own debts from unwilling kings, she turned her back on all bargains for interest on money given or received by individuals, as forbidden by the Canon Law; and only passively acquiesced in or winked at those loans to industrial concerns where profits could be plausibly represented as returns from a common enterprise. Nor was the transport either of money or goods any more secure than their possession or exchange. The seas were infested with pirates, and on land the feudal barons from their castles everywhere swooped down on the passing trader. The consequence of all this was that money or other valuable movables in small bulk had to find for themselves holes in the ground or up the chimneys; and if they were tempted to venture out on sound legitimate commercial enterprise, it had to be done with as much stealth, circumspection, and concealment, as if it were a midnight robbery that was on foot. And the consequence of this again was that in all foreign trade and in most domestic, except between neighbours in the same village or municipality, the rule of the commercial road was, what it still is among retail tradesmen who do not know their customers:—

'Money down, or no deal.' And further, as sinews of war always available and easily accessible were as pressing a necessity of kings then as now, and as the actual coin or bullion, if it were to be got together at all, had to be collected from their own subjects, it was indispensable that these subjects in turn should have it in actual tangible possession. And it was in the manœuvring to secure this that the Mercantile System took its rise.

The first plan devised by the Government for this end was to see that in every bargain between a native and a foreign trader more bullion was left in the country by the foreigner than was taken out of it by him. And as these bargains with foreigners were only to be made at certain specified places or markets, officers of the king were always present to see that the balance in gold on each transaction was on the side of their own countryman. Indeed it went so far that the foreigner was obliged to take up his lodgings at the house of one or other of these officials in order to make sure that the money he received for his goods should be spent, before he left, in the purchase of English goods in turn. As for the English exports, which at that time consisted mainly of wool, hides, lead, and tin, and on which duties had to be paid, certain towns only on the Continent were permitted to receive them. These were called 'staple towns,' and the corporation of English traders established at these towns and charged with the duty of collecting these dues, had to satisfy themselves that the price of the commodities (or enough of it at least to pay the dues) was received from the foreigner in *money*. As for gold and silver themselves, their export was either altogether forbidden or was subject to heavy duties. By these different devices the Government was reasonably assured of being able to put its hand on the money required as it was wanted; and it is evident that in no other way but by this restriction of the full freedom of the individual to trade as he pleased could the supreme end of the State, its independence and self subsistence,

in those unquiet times have been secured. But difficulties arose almost from the very outset. For owing to the small bulk of gold, the ease of its concealment, and the high duties which had to be paid on its exportation, the smuggling carried on in it was so great that the Government lost almost as much by leakage in one way as they gained by their regulations in another. And this was not all. For the other nations, driven to it by the same political necessity, were also more anxious to obtain gold and to keep it in their own hands than to part with it to each other. For trading merchants, therefore, gold in hand to be expended on purchases abroad had an immense advantage in every bargain, but the duties on taking it out of the country were so great that the facilities for foreign trade were being everywhere seriously curtailed. At last the complaints of the merchants became so loud and sustained that governments everywhere were obliged to think of other means for keeping in the country the gold that was so necessary to them. They began by trying what a modified form of free trade in gold would do, and permitted at first the exportation of *foreign* coin and bullion free of duty; Holland going so far even as to allow the free export of national coin as well. But the result was what might have been foreseen. The coins like shy and untamed creatures when allowed to escape, disappeared as by magic from the landscape, and taking refuge in holes in the ground could not be recaptured; accumulating there in hoards, and disappearing as completely from circulation as they do in the East to-day. The Governments accordingly baulked in their efforts to get the gold they wanted either by standing beside each party to a bargain and collecting it by force, or by letting it pass freely in and out of the country to find its level as it would, were now obliged to try another device, which marked the first stage of evolution of the Mercantile System. For in the meantime these Governments were every day becoming more settled and centralised, and were extending the strong arm of authority over larger and larger groups

of their recalcitrant subjects: their industrial and financial assets were more secure, calculable, and regular, and their international good faith more assured. They were prepared, accordingly, for a larger scheme of national housekeeping. Instead of keeping their eye on *individual* transactions to make sure that the balance of each bargain was in their favour, they now made an effort to secure that *the total balance of all the trade, export and import*, between them and foreigners should be in their favour: in other words, it had now become an international commercial struggle, in which nation was to be pitted against nation, and no longer individual against individual. Now it is evident that in the absence of a system of international banking and exchange in which balances only are paid in gold, a balance in gold in a nation's favour could only be secured by its keeping its eye on the *imports*, and reducing them as much as possible, as otherwise the country might on the occurrence of bad harvests or other deficiency of the necessaries of life be emptied of its coin altogether. And accordingly, as the only way in which you could be sure of your gold and at the same time get all the imports needed in times of dearth, was by taking care that the exports as a whole should always be greater than the imports, the policy of governments was naturally to artificially encourage these exports at all hazards and by every species of device—by drawbacks and bounties on exportation which gave privileges to certain favoured trades, and especially by commercial treaties which gave privileges to those countries from whom we had hitherto imported little but of whose products we were in future to take more, in return for their allowing us to send them still more of our own to balance and overtop them. In this way by securing that the exports should always exceed the imports, the nation was sure at any point of time of having a balance of gold in its favour.

Now the first point to be noted is, that this was not a trade policy as such, not a protective policy in our sense of the term, but was purely a State policy, a policy for securing the revenue

necessary for carrying on the work of government, and to insure the independence and stability of the nation,—its defence against its enemies whether from within or from without. And the proof of this is to be found in the fact that the restriction of imports (or their overbalance by exports) included all imports whatever, provided they came from countries where the balance of trade was against us: and was not confined to goods of the same character as those made at home and with which they might come into competition, as in modern systems of Protection.

But as the centuries advanced and Governments became settled; as the baron robbers and pirates were put down, and transport was made safe and easy; as private debts were secured by the law courts, and the assets of nations in general could be estimated with a sufficient approximation to accuracy; it became at last possible to establish private and international systems of banking and exchange on a basis both of individual and national credit and good faith; systems in which *balances in private and public ledgers* took the place of actual gold and silver in making the exchange of wealth possible. The consequence was, that governments could now obtain all the gold they wanted for national purposes at practically a moment's notice by means of loans based on their national credits and assets. It would have been madness therefore to have gone on restricting *all* foreign imports as such, now that the fear of not having enough gold in the Treasury when it was most urgently needed for self preservation or defence had passed away. If then we find that this policy of restricting imports was still continued, it is evident that it must have been for some other reason than the mere necessities of the State. And so, indeed, it was. The imports continued to be restricted, but it was now mainly for purely *trade* considerations. It was not now a question of the Government getting what it wanted in spite of having to interfere with the legitimate interests of trade, but was distinctly a policy of protecting and encouraging native industry *in the interests of trade itself*, and under the belief that

national wealth was more likely to be increased by this particular system of commercial policy than by any other. And the proof of this is, that the restriction of imports was not now one embracing all imports alike as formerly, but was confined as far as possible to the import of those commodities only which *competed in the home market with native productions*; and especially, as was natural, to those that competed with the interests of the ruling classes of the time,—the landlords, the shippers, the merchants, and the larger manufacturers. But once the governments and the nations were at one in their whole-hearted policy of making the increase of trade itself their main object in their trade regulations, they were able, now that the home market was sufficiently protected by the restriction on certain classes of imports, to push more vigorously than ever the policy of *extending their foreign markets by means of exports*. The system of drawbacks and bounties, as well as of treaties of commerce with favoured nation clauses, was continued and enlarged; and to these was added a new device for the extension of markets abroad, which combined the maximum of certainty and safety with the minimum of sacrifice. This was the establishment of Colonies in new countries, and the exploiting of their natural resources for the benefit of the mother country by the creation of strict monopolies in her favour, both in the home export trade and in as much of the import trade as was thought desirable or profitable.

Now this policy of extending the foreign markets by the above and other devices, while protecting the home markets by duties on imports likely to compete with their own productions, marks the final stage in the evolution of the old Mercantile System which was in vogue everywhere up to the time of Adam Smith. But as it has persisted ever since, with only temporary interruptions in all the great countries of the world with the exception of England; and as the industrial success of England in her opposite régime of Free Trade has up to the present, with certain reservations, been so unquestion-

able, it would seem as if this were the proper place for the full discussion of a problem and a situation which combined at present one of the most curious anomalies in the commercial policy of nations. But this is impossible at our present stage. inasmuch as the problem is complicated by the intrusion into its domain of the orthodox system of Political Economy as a scientific specialism; and I must therefore postpone its full discussion until the different stages in the evolution of the orthodox Economy have been passed under review and all the practical factors bearing on the solution of the problem have come into line. If we could only represent the Free Trade of England as the next stage in the normal evolution and development of Protection, there would of course be no anomaly to resolve; but as the two systems are speculatively in point blank opposition to each other, this would seem to be an impossibility. And yet not necessarily so; any more than the apparent paradox that if a man were to walk far *enough* due East, he would, without altering his line of route, finally find himself due West of the point whence he started; or that if a man who is clothed will only continue to undress himself, garment after garment, he will at last find himself naked. This would explain the policy of Free Trade if it could be shewn as well that at the period in question England had succeeded in making herself *supreme over the rest of the world* in some one or more great world-wide industries. For the effect of this would be, that she would neither require to stimulate her exports by drawbacks, bounties, or treaties of commerce, inasmuch as by the hypothesis she is already supreme and can undersell the foreigner without their aid; nor would she require to put duties on her imports, for by the same hypothesis the imports which would compete with hers are undersold already, while those that would not so compete would be imported free anyway. And so Free Trade would be seen to be really the next stage in the evolution of Protection, when that system as a practical policy had to be

adapted to an unique and unprecedented stage of industrial development, although speculatively and theoretically it was in direct antagonism to it; resembling in this those fishes which, like the shark, turn on their backs the better to secure their food, while theoretically reversing all the ordinary methods for the performance of that function.

Now, that England had in actual fact obtained the industrial supremacy assumed in our hypothesis will be seen later on; in the meanwhile we have to remark that the speculative doctrine of Free Trade, together with the orthodox Economy which formed its setting, actually took its rise not from the condition of industry in England, but from the abstract speculations of a handful of thinkers in France, and that it has been evolved purely along the lines of these speculations down through Adam Smith and his successors to the present day. It was adopted by Adam Smith, as foreshadowed in his Glasgow lectures, not only on its own speculative merits, but because it suited the industrial condition of England at the time; but it afterwards continued to run its course independently of, though parallel to, the evolution of her Free Trade policy. It was indeed a concomitant rather than a cause; and although it supported, strengthened, and intensified the movement in favour of Free Trade through every stage, still in its own development as a *doctrine* it proceeded on abstract grounds entirely, and quite independently of the practical policy. And the consequence was that while the doctrine began as the *intellectual* support of a policy peculiarly adapted to the practical requirements of a particular nation, it ended, like a doctrine of Theology, in being elevated into an infallible dogma which was held to be true for all nations at all times. All this will be seen in detail as we proceed; I have alluded to it here mainly for the purpose of introducing the reader to the theories of the Physiocrats who were not only the real founders of the speculative doctrine of Free Trade but of the orthodox system of Political Economy as well.

CHAPTER III.

THE PHYSIOCRATS.

FROM the time of Colbert the Government of France had strictly conformed to the universal maxims of the Mercantile System then in vogue,—namely of encouraging Manufactures at the expense of Agriculture. The main object was as usual to secure easily accessible sources of wealth to be tapped for the benefit of the State; whether the revenue thus accruing was expended for the all important object of national administration and defence, or was largely blown away in the luxuries and dissipations of the Court, need not concern us here. It is certain that Colbert himself genuinely believed, like the rest of the world, that more national wealth would accrue from the working up of the raw materials of the soil into special classes of highly finished manufactures for consumption at home and abroad, than from the cultivation of the soil itself. But he also saw that more revenue was to be squeezed out of them as well, and that taxes could be more easily raised from the industrials of the towns than from the landlords or peasants of the country. For these industrials having for centuries been protected in their rights and privileges by the king himself against the extortions of the surrounding nobility,—and especially in this matter of taxation,—were all the more amenable when he wished to squeeze them himself. Whatever, therefore, contributed to their material prosperity

could be easily made to contribute to his revenue, and to fall automatically into his coffers. But it was different with the inhabitants of the country. The nobility, both lay and ecclesiastic, were exempt from taxes on their property, and even when a capitation tax of more than customary amount happened to be placed on their shoulders, all the machinery of Court intrigue was brought to bear, by means of special exemptions and under-valuations, to have it shifted on to the other classes of the community, whether it were the peasants or the industrial workers of the towns. The seigneurs, it is evident, were still far too powerful and their hereditary privileges and exemptions from taxation too assured, to make the agriculture of the country districts an easy hunting ground for hungry officials bent on replenishing the king's treasury; while as for the peasants themselves, they had from time immemorial been specially reserved by peculiar and exceptional privileges for the extortions of the landlords, and so were not available for further exploitation by the king. If fresh taxes, therefore, were to be raised, and gold to be had on emergency, it was at the gates of the towns with their factories and workshops that the tax collectors must encamp to secure an ever present source of revenue on which at any moment they could lay their hands, and from whose productive yield they could skim the cream on every passing wave of local or national prosperity. But if the milch cow was to give an increased yield, it must be fed and otherwise looked after; and accordingly the government of Colbert bent all its energies to *the encouragement of manufactures, and to the extension of their markets abroad.* New kinds of manufactured goods were subsidized, and exports of the old ones were stimulated by bounties, by treaties of commerce, by the restriction of competing imports, and by all the other devices of the old mercantile system. But the exportation of corn, on the other hand, was absolutely forbidden, ostensibly on the ground that by keeping it in the country the workmen of the towns would be able to live at less expense, and their

manufactures becoming cheaper in consequence, there would be a greater demand for them in foreign markets. Besides, the great Provinces of France were still in many respects like separate nations, and in none more than this, that corn could not be imported from one into the other except under the severest restrictions. The consequence was that while the harvests were plentiful in one province, famine might be raging in a neighbouring one, without the corn being able to pass the frontier between them; and while the landlords of each alternately benefited and suffered by this capricious deficiency and excess, the general distress became so great that the prohibition of the export of corn was after the time of Colbert more and more relaxed. Special treaties of commerce with neighbouring nations took the place of general prohibitions, and were attended with varying success,—except in the trade relations with England which were uniformly at a deadlock. For as manufactures formed the natural industrial strength of England, while wine and silk constituted that of France, and as France was determined to push her manufactures at all costs in competition with those of England, the consequence was that the two nations were in a chronic state of commercial war during the whole of the eighteenth century. But in spite of all difficulties, and through innumerable changes of detail, France remained staunch to the Mercantile policy of promoting the export of her manufactures at the expense of her agriculture, down to the time of the Revolution.

In the generation before that outbreak, however, a school of Economic Thinkers had arisen in France whose practical aim was to reverse not only the principles of taxation then prevailing, but the principles of that Mercantile system which for so many ages had everywhere given to manufactures a position of priority over agriculture in the industrial policy of States. This was the school of the Physiocrats to which we have already referred, and which numbered as we have said such men as Turgot, Morellet, and the elder Mirabeau among

its most devoted and enthusiastic disciples. But as the Government of France had long been a strongly centralized despotism, there was no possibility, as in England, of inaugurating and carrying through these or any other political or industrial reforms by means of legislative measures forced on it by the representatives of the people themselves. The only way of effecting them was by bringing cultivated opinion to bear on the upper and middle ranks of society through the medium of books,—as was so strikingly exemplified at that very time by the far reaching influence of Rousseau, Voltaire, and the Encyclopædists, not only on politics and religion but on almost every subject of human speculation. The proposed reforms of the Physiocrats accordingly, were ushered into the world under the form of an abstract intellectual system, which it was hoped would give to the movement at once its inspiration, its initiative, and its point of departure. This system undertook to demonstrate that Agriculture, which had hitherto been slighted, was not only an important but the one supremely important industrial occupation, while manufactures, which had hitherto been the main concern of Governments, were not only inferior to it, but were the most unproductive and even menial of services. But to get the fulcrum necessary for this proposed reversal and upheaval of opinion, the system needed some large central principle as a core from which its deductions were to be drawn; and this the Physiocrats found in the doctrine afterwards accepted by Adam Smith and made the basis of his 'Wealth of Nations,'—the doctrine namely that *in Agriculture alone do the powers of Nature come to the assistance of man, and not in Manufactures.* The doctrine doubtless sounds strange to us moderns accustomed to see a little water heated in a boiler and made to run an engine do the work of thousands of men; but it must be borne in mind that neither this nor any other of the great discoveries and inventions which have made the greater part of the wealth of the modern world, had then, or for years after the time of Adam

Smith, appeared on the industrial horizon. As, however, the doctrine furnishes us with the key to the distinction between the Mercantilists on the one hand and the Physiocrats and Adam Smith on the other; and, what is more important, as its secret influence, as we shall see, like that of a fateful star has presided over the progress and development of the orthodox Political Economy from its birth to the present hour; it is necessary for use to see first of all how the Physiocrats built their system around it. This once clear, we shall then be able to judge whether the alterations made in this system of the Physiocrats by Adam Smith and his orthodox successors, are sufficient to neutralize the effects of founding a highly complex system of Political Economy on a basis so palpably absurd as this dictum of Adam Smith that 'in Agriculture, Nature labours along with man, but that in Manufactures, Nature does nothing, and man does all.'

The first point then which we have to note is, that the reason the Physiocrats thought that it was only in Agriculture that Nature came to the assistance of Man, and not in Manufactures, was because in Agriculture there was always a surplus which went to the landlord in rent after the farmer's profit and expenses had been paid, whereas in Manufactures there was no surplus beyond what was necessary to pay the profits on capital and the wages of labour. For although, said they, a piece of lace for a pair of fine ruffles, for example, could be made from flax costing a penny, and yet sold for as much as £30, still there was no surplus; for it would take two years to make it, and during that time the food and clothing of the maker would cost the £30. And from this they argued that manufacturers and artisans and labourers in general were only a kind of 'out-of-door menials' whose work practically only paid for their keep. But as, like in-door menials, sporting dogs, and carriage horses, all these classes had to be kept out of the raw produce of the soil, they went on to argue, as their second point, that if you wanted the

surplus of raw produce, which constituted the real wealth of the nation, to increase, you would have to do either one or other of two things:—you would either have to devise means by which the miscellaneous general population of manufacturers, artisans, and labourers could be fed at less expense, or else devise means by which the surplus of raw products which fell naturally to the landlords after keeping these unproductive menials, should be increased. And it was the special boast of the Physiocrats that they had shown how to do both by a single device, and at a single stroke. For all you had to do, said they, was to completely reverse the prevailing policy of the Mercantilists, and to throw open your country fully and freely to foreign trade by abolishing all tariffs, duties, and restrictions whatever, external or internal, and you would find that the double result would at once follow. For by freely permitting the entry of foreign goods which could undersell their own, not only would the manufacturers, the workmen, and the labouring population generally get their clothing and household appurtenances at cheaper prices, but what was more important, the landlords and farmers would get theirs cheaper also. This would increase the landlords' surplus —the all important point with the Physiocrats inasmuch as by their hypothesis its increase could alone increase the wealth of the nation—and by so doing would give the landlords more money to expend in improving the cultivation of the soil, which in its turn would yield a still larger surplus, and this in turn again would either keep the same number of manufacturers and workers in greater comfort, or would permit of larger families and a larger population; and so either way would add to the wealth, prosperity, and power of the State. By this scheme, its authors pointed out, all would be for the best all round, and it would be to everybody's interest to support and perpetuate it. But were the Government, on the contrary, still to continue in its Mercantile policy, and load foreign manufactures with import duties, the expenses of living for all

classes, including the landlords, would be so increased, that the surplus left over in the hands of the landlords which was the real wages fund out of which all the other classes (except the farmers) were kept, would be so lessened that not only the general population but the nation as a whole would suffer. The only persons who would gain by the import duties, they contended, would be the manufacturing capitalists whose profits would be increased at the expense of those of the farmers and landlords, on the ground that of a given amount of capital invested, the one could not get more without the others getting less. But as it was one of their cardinal doctrines that the manufacturers were an 'unproductive' class, inasmuch as what they produced was only sufficient for their keep and added nothing to the wealth of the country, while the landlords and farmers were the only 'productive' classes, inasmuch as in their occupations alone did Nature come to the assistance of man by yielding a surplus as her free gift, the result of loading foreign manufactures with import duties would be economically bad for all classes—for the working population, as well as for the nation as a whole.

And now we have to ask how the Physiocrats proposed to raise the revenue necessary for the defence and administration of the State, if all duties whatever, external and internal, were to be abolished? Nothing could be simpler, said they; all you have to do is to put *a single tax on land values alone*, and the thing will be done, not only without the people feeling it, but without the landlords suffering from it! For what is paid in taxes by the landlord is first deducted from the whole amount of produce, and the balance is sold at higher prices. In this way the tax is quietly shifted on to the shoulders of the people, and the landowners are untouched by it. But, on the other hand, so equally diffused will the burden be over the whole population, that not only will the taxes be secured with a minimum of friction and injustice to individuals by this mode of levying them, but like all indirect taxes which operate

through prices, almost without people knowing it. If it should happen that the landlords were not able to shift the tax from their own shoulders, the scheme of the Physiocrats would be frustrated, for the landlords would then be prevented from improving the soil, on the surplus produce of which, by the hypothesis, not only the subsistence of the people but the wealth of the nation depended.

Such in barest skeleton and outline, and in its logical concatenation, was the system of the Physiocrats, which through its adoption (in its main features at least) by Adam Smith was destined to play so important a part in the political economy of the world. But as I shall have to deal with the modifications made in this system by him in my next chapter, I shall say no more in reference to it here than that it is precisely the sort of proposition we can imagine a despot, as for example the Czar of Russia, making to the vast population of manufacturers, artisans, and labourers, who are under his sway, in words to this effect ;—that if they would only live as sparingly as they could, buy as cheaply as they could, and so permit him and his landlords to accumulate as great a surplus as possible, it would really be for their own and their country's good. For would not the surplus which would accumulate as the result of it in the imperial treasury and in the granaries of the landlords be used to keep them and their families better fed and clothed and housed, better employed and better paid, than before? That is to say, if they would only consent to empty as much of the water from their buckets as they could into his and his landlords', these in turn would have all the more left over to pour back into theirs! They would have lived in the mean time somehow, and all that they had stinted themselves of, and more, would come back to them later on as at once a solid bonus and a delightful surprise!

The truth is, the whole argument is a piece of pure logical hocus-pocus, and it is little wonder that the system itself should have long faded from the thoughts of men. And yet it

must not be forgotten that Adam Smith deliberately says of it; "This system with all its imperfections is perhaps the nearest approximation to the truth that has yet been published upon the subject of Political Economy, and is upon that account well worth the consideration of every man who wishes to examine with attention the principles of that very important Science." And indeed, as we shall now see, Adam Smith embraced the system as a whole with but the most superficial modifications in detail.

To sum up the history of this strange system in a word, then, we may say, firstly that it was through it, and by a single stroke of the pen as it were, that the great twin doctrines of *laissez-faire* and of Freedom of Trade, which have played so great a part in the political economy of the nineteenth century were born into the world; and secondly, that both these doctrines alike are the necessary logical corollaries from the, to us, amazing first principle, that 'in Agriculture alone does Nature lend her aid to the labour of man, whereas in Manufactures, Nature does nothing but man does all.'

CHAPTER IV.

ADAM SMITH.

THE important and commanding position occupied by Adam Smith not only in the history of Political Economy in general but in the evolution of the Orthodox Economy in particular, makes the question of the sequence and order in which his views are to be presented to the reader one of more than usual importance. In this historical section my aim is to unite as far as possible into a single presentation the opinions of the respective authors whom we are to pass under review, the evolution of these opinions, and the extent to which they have been interpenetrated and modified by the political, legal, and social forces proper to the civilization of the time. And as Adam Smith, besides being the first authoritative exponent of what was afterwards to become the orthodox political economy of the Schools, was also the last exponent of what may be called a *natural* system of political economy, like that of the Mercantilists, where State policy formed an even more important element in its structure than purely economic considerations, it would seem more than likely that traces of the system would be found in the evolution of his doctrine, mixed up and lying side by side with the more purely speculative views which he derived from the Physiocrats. These elements I have thought it well to tabulate and set aside at the outset, in order to concentrate on those parts of his

system from which the succeeding stages of the evolution of the orthodox economy took their rise and point of departure.

The keynote of those portions of his work in which traces of the old Mercantile system are apparent is to be found in the remark which he appends to his defence of the Navigation Act, that 'the defence of a country is of more importance than its opulence,' going on to add impressively that this Act 'is perhaps the wisest of all the commercial regulations of England.' But as he has just been arguing that the Act was not favourable to the increase of national wealth as such, inasmuch as by it we had to buy foreign goods dearer and sell our own goods cheaper than would have been the case with perfect freedom in the shipping trade, it is evident that we have here a pure piece of old Mercantilism and Protection welded into his system of Free Trade, like a fragment of older rock into a geological conglomerate.

Another reversion to the Mercantile system is to be seen in his support of the principle of granting temporary monopolies to joint-stock companies for the purpose of opening up and establishing new avenues for trade with remote or semi-barbarous peoples. This procedure, which was also one of pure Protection and entirely opposed to his doctrine of Free Trade, was justified by him on the ground that the general public would afterwards reap the benefit of what without such assistance would not be undertaken at all by private individuals, owing to the pecuniary risks which attended it. Now this is precisely the ground that is taken at the present day by young and vigorous nationalities in protecting those 'infant industries' for which they are naturally adapted, but which without such protection are too weak to stand alone; and is a piece of pure Protection. He also advocated the subsidizing by the State of institutions and public works for facilitating commerce, which it would not repay either private individuals or groups of individuals to undertake—still another infraction of his own doctrine of Free Trade.

Now these intrusions of fragments of the old Mercantile theory into his own body of economic doctrine were, in spite of their logical contradiction to it, deliberately defended by Adam Smith on the ground that they were necessary to the full and adequate performance of the functions of a State when placed in an environment where many things that had been absolute necessities in the older system could not as yet altogether be dispensed with in the new. They were not defended because they were *economically* true, or as being calculated to add to the wealth of the country even at the time of which he is writing; on the contrary they lessen, he contended, the wealth of the country, and if it were a question only of the national wealth he would have abolished them there and then. But as national defence is with him of more importance than national opulence, he defends them purely on grounds of State necessity or expediency; much in the same way as he defended the export duty on wool, not on economic grounds but as a proper object of taxation for raising the necessary revenue of the State. From all of which it is evident that Adam Smith, although he thought that he had reduced Political Economy to a science, still felt strongly, what so many of his orthodox successors have ignored, that it could not be detached as a free scientific specialism and let loose on the world to work out its principles to their logical issues, divorced from the larger and higher interests of Politics, Morality, and Civilization.

With these preliminaries we are now in a position to advance to the main object of this chapter,—namely the consideration as to the nature of the modifications made by Adam Smith in the system of the Physiocrats, to whose principles he had in general terms given his adhesion; and especially to determine whether these modifications so far altered the organic structure of that system as to justify 'The Wealth of Nations,' not only in having supplanted it, but also in having become, in its main structural lines at least, the basis of the whole future develop-

ment of the orthodox Political Economy down to the present time.

Now the central doctrine of the Physiocrats, it will be remembered, was that the only source of the increase of wealth of a nation lay in its agriculture, inasmuch as in 'Agriculture alone did Nature come to the assistance of Man, whereas in Manufactures, Nature did nothing but Man did all.' From this central principle they drew the conclusion that the economic classes in a nation could be divided into two, the 'productive' and the 'unproductive'; the landlords and farmers alone being productive, the manufacturers, merchants, artisans and labourers unproductive, inasmuch as like menial servants they cost as much for their keep as they produce. Adam Smith, on the contrary, from the same premises drew the modified conclusion that *all* classes alike were 'productive' and capable of adding to the wealth of a nation, although in different degrees; the landlords and farmers together adding the most, inasmuch as they had Nature to help them; the manufacturers, merchants, artisans, and labourers adding less, inasmuch as they had to do all by their own devices without the assistance of Nature. And in defence of this position he adduced five different considerations. The first was that the manufacturers, artisans, and labourers, did *not* 'eat their heads off,' like the menial servants, inasmuch as at the worst they at least replaced in their various ways by their labour the wealth they consumed; this labour ending in the production of some vendible commodity, and not in mere services. The second was, that by the principle of the 'division of labour,' a number of men working under one roof, as it were, on the different parts or stages of a complex process,—as in pin-making for instance,—could by the saving of time and increase of skill involved in doing one thing repeatedly, produce *more* in a given time than if each worked independently and had to do all the different operations by himself; and that, therefore, if a man working by himself could earn his living, he could do more than that,

and so add something to the wealth of the nation, by working in combination and co-operation with his fellows. But if the Physiocrats should object that this extra product went to the manufacturer, and so only replaced the ordinary profit incidental to the capital he had sunk in his business, Adam Smith has a third consideration in reserve with which to confront them, and this is that not only manufacturers, but artisans and labourers could always save *something*, if they were careful, out of the profits and wages they received; and so in this way could add to the wealth of the country:—the manufacturers, I presume, by reducing their expenses and unnecessary luxuries, the artisans and labourers by saving a little each week to put into an old stocking or into the bank. Adam Smith's fourth consideration was, that as division of labour was more applicable to manufactures than to farming, more exchangeable wealth would be produced in a given time in manufactures than in farming. If the farmers therefore, he argued, were to be put among the productive classes, much more must this be the case with the manufacturers. For although Nature came to the assistance of Man only in agriculture, it was to the landlord and not to the farmer that she came; inasmuch as the farmer only got the ordinary rate of profit on his capital invested, while all the excess of production due to the powers of Nature inherent in the soil, went to the landlord in an increase of rent. If then the Physiocrats, as they were logically bound to do, would let corn come into a country free,—in the same way as at that very time they had succeeded in France in getting its export made free,—they would find themselves confronted with the fifth and last consideration of Adam Smith; and that is, that as a larger quantity of actual wealth, in the shape of corn, cattle, etc., could be got from the sale of a small quantity of manufactured goods abroad, than its own lands in the actual state of cultivation could supply, it follows that manufacturers and their artisans are not only 'productive' classes, but that through this export

of their productions, more wealth can be added to a nation than would otherwise be possible.

From these differences between the Physiocrats and Adam Smith in reference to the sources of wealth, follow corresponding differences in their schemes of taxation. The Physiocrats believing that land was the sole source of wealth, were logically bound to base all their taxation on it; and accordingly they made a single tax on land values their one source of revenue. Adam Smith on the contrary believing that all classes could and did contribute to the wealth of a nation, either by division of labour, saving, or foreign trade, was logically and in justice bound to make them all bear their fair share in taxation, and not to throw all the taxes on the land. And accordingly he has given us those excellent chapters on the distribution, the mode of payment, and the incidence of taxation, which have remained a permanent contribution to the literature of the subject.

Now the above constitute practically the main differences between the system of the Physiocrats and that of Adam Smith. And on running them over it becomes apparent that they are differences rather of detail than of essential principle. And indeed this is precisely what we should expect from Adam Smith's own express admission, that the system of the Physiocrats in spite of its discrepancies and imperfections was the nearest approximation to the truth that had as yet been published on the subject of Political Economy. The difference is as the difference between the fit and the cut of a coat; and is one rather of degree, proportion, and symmetry,—as of breadth of shoulders, and length of waist, or a piece inserted here or cut off there,—than of structure or organic type.

The differences are all *negative;* differences of more or less: more or less production, more or less saving, or none at all. With the Physiocrats, for example, it would not disturb the financial status either of the landlords and farmers or of the State, if the manufacturers, merchants, and artisans all went

and hanged themselves; for then the former could save more, precisely as if they sold their carriage horses, or dismissed their liveried servants; and the State would be the richer in consequence. With Adam Smith, these manufacturers, merchants, and artisans are less absolutely valueless, because he has proved that they can and do save *something* out of their earnings, and so increase the wealth of the country.

But not only are the differences of principle between them purely negative; the systems themselves are both alike built on negations. In the system of the Physiocrats, the landlords and farmers alone are 'productive,' the rest of the population are altogether barren and 'unproductive'—mere negations. But the system of Adam Smith is equally built on a negation, as we should know beforehand from his confidently expressed dictum, that "Parsimony and not Industry is the immediate cause of the increase of capital"—of a nation as of an individual. The central principle common to both, namely that it is only in Agriculture and not in Manufactures that the powers of Nature come to the assistance of man, is the direct *negation* of the part played by those powers of Nature, like steam and electricity, which since his time have not merely modified, but transformed and recreated the modern industrial world from a new centre of gravity and a new organizing principle. This doctrine, again, is negative, inasmuch as it leads them both logically to the conclusion that the classes that have not been able to capture and appropriate these powers of Nature, but have to do everything by their own unaided exertion, must be dependent on those who have; and must be either partially or altogther kept by them, in the sense in which horses and dogs are kept by their masters. With the Physiocrats, they are *absolutely* kept by the landlords, after the farmers have first taken out their share of the product; with Adam Smith, they are only *partially* so; the manufacturers keeping themselves out of their own savings, and then out of the balance of these savings still left over,

keeping the artisans and labourers; precisely as in the Modern Orthodox Economy, which has developed in a straight line from the Physiocrats and Adam Smith. In both systems, again, Consumption as a necessary factor is quite ruled out or ignored, as indeed it must be when the bulk of the consuming classes are represented as either wholly or partially *kept* by the producing classes.

With the Physiocrats, as we have said, it would almost have been a providential dispensation if the labourers had gone and hanged themselves, and so not decreased the wealth either of the nation or the landlords by their consumption; with Adam Smith, they were tolerated and even encouraged, so long as they were able to save something, however little, over and above what they consumed. It never seems to have occurred to either of them that if products were not consumed by somebody, the powers of Nature would not be brought into play to yield a surplus to lie either on the landlords' or the manufacturers' hands, after they had had all they required for themselves. It is always assumed that there will be consumers *somewhere* (usually 'in foreign parts'), much as men always assume that there is a heaven for them somewhere; though why consumers as such should be welcomed *anywhere*, when in the same breath they are told that the *less* they consume, or the more they save, the better it will be for the wealth of the world, nowhere appears. The truth is, both these systems are founded on the old symbol of the rod or stick on which we have already dilated at so great length in the earlier part of this volume, and to which nothing more than bare reference need be made when used in future arguments;—the doctrine namely which proceeds by breaking up what is actually a *continuous* movement into a series of *definite time units*, in each of which a definite amount of wealth or capital is postulated as functioning; the more wealth that is saved during one unit, the more capital that is appropriated for one undertaking, the less being left for another. That Adam Smith's system is

based throughout on this symbol,—instead of on the entirely different one of a continuously revolving wheel, whereby the more wealth that is being consumed (within the limits imposed by the state of the agricultural and mechanical arts of the time) the more will be reproduced, the more capital that is set aside for one undertaking (provided only that the undertaking is reproductive) the more, and not the less, wealth will be set free for all other investments of capital:—that the system of Adam Smith, I say, is built throughout on the symbol of the stick, is nowhere more clearly seen than in his chapters on the Colonial Trade, where all the separate doctrines in his book, brought up as contingents, are massed and concentrated on the one object of annihilating the arguments used by his opponents in support of the monopoly of that trade which England then enjoyed, of destroying that monopoly, and of throwing open the trade to the whole world;—and this, be it observed, not because it would increase the wealth of the world in general by liberating its industrial currents, or the wealth of the Colonies in particular by giving them more and better markets for their goods, (both defensible propositions), but distinctly and avowedly for the sole reason that the abolition of the monopoly would increase the wealth of England herself. Now if we find Adam Smith tripping here, if we find him basing his arguments on the stick, and supporting them by mixing up temporary Politics and half truths of Political Economy in a confused conglomerate, while announcing his conclusions and deductions as laws of Political Economy alone; if we find him confusing the laws of wealth of the world *as a single whole* with the laws of wealth of a *particular nation standing in trade relations with other nations;* then all his arguments and conclusions must fall to the ground, and with them the 'Wealth of Nations' itself, on which is built the whole of the modern Political Economy. Nor need we fear much difficulty in extricating and unravelling his fallacies from out of the wide range of his discussions, for his belief in the symbol of a stick

as the true symbol for all deductions as to the laws of the increase of wealth is so transparent and sincere, and his assumption of it so open and undisguised in every argument he uses; his assumption, too, that the acquisition of wealth by an individual or a nation in trade relations with other individuals or nations is identical with the acquisition of wealth by the world as a whole, (or a nation regarded as a single isolated unit), is so assured and unquestioning: that if we are right in our previous demonstrations that these general presuppositions of his are wrong, nothing more than a slight re-arrangement of the order of the positions he takes up on this question of the Colonial trade will be necessary to exhibit their inherent weakness and insufficiency.

Starting with the doctrine of the Physiocrats that in Agriculture Nature gives her gratuitous assistance to man, but that in Manufactures man has to do everything by his own unaided powers, Adam Smith begins by arranging the industrial assets of nations in a hierarchy according to the amount of their wealth-producing capacities. At the top of the scale stands the *land*, which having the powers of Nature to assist it, yields the greatest amount of wealth in a given time in proportion to the labour expended on it; next below it comes the *manufacturing industry*, which, although it receives no assistance from the powers of Nature, takes a second place because it keeps and employs a greater amount of productive labour than any other, and has a quicker 'turnover' of its capital; then comes the *wholesale home trade*, which although it employs less labour and has a slower turnover than manufactures, has the advantage over a *foreign trade* both in the quickness of its turnover and in the fact that it employs two home capitals and yields two home profits, whereas one of the profits of the foreign trade goes to the foreigner; and lastly, of all the foreign trades the *roundabout carrying trade* is the least wealth-producing of all, inasmuch as it employs the fewest labourers, gives up more of its profits to the foreigners

whose produce it carries, and takes the longest time for the profits of its own capital to come home. His law, accordingly, for the most remunerative employment of capital in a country that is increasing its wealth is quite simple. It is to invest as much of it in land as the land will absorb, then when it has increased so much as to begin to overflow, to invest the overflow in manufactures; when it has increased still more, and outrun the capability of manufactures to take it up, to invest the excess in the home wholesale trade: then, any still further excess, in the direct foreign trade; and if any still remains uninvested, to put it into the roundabout carrying trade; precisely as a man invests as much of his capital as he can in the safest and most profitable securities, then when these can absorb no more of it he puts the balance in the next less profitable, and so on until it is all invested. This is when the capital is sufficient and more than sufficient for all these different investments. But now suppose that the capital of a country is insufficient for more than a few of them; then, says Adam Smith in effect, it would be as foolish for a nation to invest its savings in manufactures while profitable farming was still available, or in the wholesale trade when manufactures could still absorb more, or in foreign trade when there was an opening in home trade, or in the Colonial trade when any or all of these others were insufficiently capitalised, as it would be for a man to pass over a safe investment of ten per cent. for one of five, or over one of five for one of four, and so on. Now at the time of which Adam Smith was writing, England, he declared, had not sufficient capital, great as it was, to do full justice to all these different investments; and her conduct, therefore, in creating such a monopoly of the Colonial trade as to draw nearly the whole of the available capital of the country from the land and from the home manufactures and the direct foreign trade into it, was economically most reprehensible, inasmuch as it directly lessened the otherwise possible increase of wealth of the country. He frankly

admitted that the profits from this Colonial trade, owing to the monopoly, were greater than could be made at that time from an equal amount of capital invested in any other employment either at home or abroad. And he further admitted that the profits of all other employments were not less, as might be imagined, but greater than they otherwise would have been, owing to the lessening competition to which they were subject as capital was more and more withdrawn from them into the Colonial trade, and the consequent diminution of output and the scarcity rise of price which the bleeding them of their capital had caused.

Now I have dwelt on this hierarchy of wealth-producing employments in the system of Adam Smith, because it is on it that he mainly relies for the solution of the most important problem with which as a Free Trader he is confronted;—the problem, namely, as to how, if the monopoly of the Colonial trade was to be abolished, as he recommended, and men were left free to trade as they pleased, you could be sure that they would select just such employments for the investment of their capital as would be best for the wealth of the nation as a whole. And this is how he solves it. He says that the *self-interest* of the individual traders will naturally prompt them to do so. For would not everybody, he asks, if he had the chance, invest his capital in land rather than in manufactures, inasmuch as the former not only pays the ordinary profits of capital but a rent to the landlord besides, whereas the latter yields the ordinary rate of profit only? Would he not also naturally invest it in manufactures in preference to the trade of a wholesale merchant, inasmuch as in the former he not only has the advantage of a greater return of wealth, owing to his application of the principle of the division of labour, but he has a much quicker turn-over in his sales, owing to the time occupied in transport of goods in the latter case? In the same way would he not prefer an order from one of his own countrymen to one from a foreigner, both on account of the distance

and the slowness of return of his capital, and the greater risks in dealing with a foreigner? And finally would he not naturally prefer a regular foreign trade near home to a risky adventurous one in the Colonies or the East, where the capital required for filling up the cargoes for those distant voyages is great, the markets uncertain, credits insecure, and the final returns for the capital invested a matter of years rather than of weeks or months only? In this way, says Adam Smith, the natural instincts of the individual business man acting through his own self-interest will of themselves keep his business investments in harmony with that natural hierarchy and gradation of wealth-producing employments which he has laid down. And his conclusion is, that if trade, both foreign and domestic, were absolutely free, each individual could be safely left to invest his capital as he thought best, without any chance of its endangering, or being out of harmony with, the best possible economic interests of *the nation as a whole*. But if it is pointed out to him that the rush of all available capitals into the Colonial trade, which was the least naturally wealth-producing in his hierarchy, would seem to negative this supposed natural harmony between the self-interest of the individual and the best economic interests of the nation, his answer again is ready and is emphatic;—the rush of capital into the Colonial trade was due entirely to the legal *monopoly* which it enjoyed, and which, with the false lure of high profits to a particular class, had like a bedizened courtezan seduced the individual capitalists of the nation from the true economic interests of the nation as a whole. And having disposed of this objection, Adam Smith proceeds to point out that the hierarchy of wealth-producing employments which he has laid down, and which if followed will be for the best economic interests both of individuals and of the nation to which they belong, will also be the best order to follow *for each and every other nation, and for the world as a whole*. In other words, if all barriers to trade between the nations were to be thrown down, the investment of capital in

each would follow the same order as in every other: and that order would be the one he has laid down, namely, first to invest all your available capital in the land until it overflows, then in manufactures until they also overflow, then in home trade, next again in direct foreign trade, and last of all in the distant Colonial trade and the Shipping trade to the Far East. So that for the world as a whole, as well as for each nation, and each individual in each nation, the best economic interests will be subserved by all doing the same things in the same order: by always postponing a foreign trade and a shipping trade to a home trade, whatever may be the special resources or geographical position of the particular nation fitting it for foreign trade, and however free that foreign trade may be of risk, or however enormous may be its profits owing to the monopoly which it may enjoy; whether that monopoly comes from conquest, or by law of the mother country, or by the quality and character of the goods which it can supply, and which are most in demand abroad.

Such then is the skeleton of organic principles which Adam Smith has enforced and illustrated with much insistence and reiteration in his classical chapters on the Colonial Trade in the 'Wealth of Nations'; and the impression which his arguments leave on the mind is that he is dealing with some low indeterminate form of industrial organism, which bears much the same relation to the highly organized, differentiated, and centralized industrial development of to-day, as the organization of a worm, say, bears to that of one of the higher mammalia. Indeed if we compare it, for the nonce, to a tape-worm, and the present day industry to one of the ordinary mammals, the analogy will not only be sufficiently exact, but will serve also as a kind of concrete image by which to hold together the various fallacies and illusions by which his argument is pervaded, as well as the opposing arguments with which we are to confront it. The head of the tape-worm, which reproduces from itself the whole worm when anything happens to sever the body from

it, may fitly represent the land, as the most important agent not only in the production of wealth, but in its reproduction, should the manufactures and home or foreign trade from any cause suffer disaster: the segments of the worm in immediate proximity to the head may represent manufactures and the home trade, as being the nearest to the head in point of distance, and therefore of industrial vitality and productivity; while the remaining segments farther and farther from the head may represent the foreign trade carried further and further afield; the nearer segments representing the trade with France and the Baltic, the next with the Mediterranean, and the rest with the more and more distant ports of the American Colonies in the West, and the still remoter colonies and countries of the East. The relative distance, again, of the segments of the worm from the invigorating head, and the greater and greater depletion of its strength which any undue multiplication of the tail segments may be supposed to produce, are paralleled in Adam Smith by the progressively decreasing returns to capital and labour in long distance investments, and the greater and greater withdrawal of capital from the land, manufactures, and the home trade, during the years that elapse before the returns from these distant investments come in again; while the fact that a creature is of such low segmentary organization that the increased vitality of one part, far from increasing the vitality of the rest, will rather draw nutriment away from it, like an abnormally elongated tail, is paralleled in Adam Smith by the doctrine that the capital of a country is a *rigid definite quantity* divided into separate segments and distributed among different employments and occupations, and that all investments of it in any one or more of these employments, however reproductive, (especially if out of their due order, and at the tail end) must necessarily draw it away from the rest—a capital fallacy as we shall presently see. And if we extend our analogy of the worm from the separate employments of a single nation to the world as a whole,—with each

nation as a separate relatively independent segment, each segment in structure and composition the duplicate or facsimile of all the rest, and with only the merest formal bond of connection between them,—this will also sufficiently represent Adam Smith's conception of the economies of the world as a whole, where the welfare of each nation is best subserved by its investing its capital in the same order of employments as every other, and in the hierarchy which he has presented, and where each looks to land, manufactures, and its home trade as its first concern, while the foreign or colonial trade,—as the bond of commerce between the separate nations,—comes last and lowest in order of importance, and must be postponed, in consequence, as a field of investment, until all the home trades have been filled to overflowing.

How unlike all this is to any image that can possibly be formed of Industry as it exists at the present day, either in its organization, its processes, or its development, whether in a single nation or in the circle of nations trading with each other and making up the industrial world as a whole! Instead of being constructed on the type of the lowly organized worm, its true analogy is to be found only in the vertebrate kingdom, where there is neither priority of function nor gradation in the order of importance of one organ over the rest,—as of heart over lungs, lungs over stomach, stomach over organs of locomotion; nor yet priority in order of time of the advent of one organ over another, for all must develop *pari passu* before any increase in growth can take place: nor yet a constitution of parts or organs all duplicates of one another and each with a semi-independence of its own, like the segments of the worm; but all on the contrary are bound together in the closest network of relationship and organization, each being different from every other in its structure and function, and all so sympathetically responsive to each others' condition that nothing can affect any one of them, however insignificant or remote from the centre, whether for evil or good, but is

reflected back on all the rest, to their detriment or welfare as the case may be.

Now this analogy of present day industry to the organization, processes, and development of a vertebrate animal, will be found to hold good in every particular, both in reference to the industry of a single nation, and to the industries and inter-trade of the aggregate of nations making up the economic world as a whole. And the advantages which I have proposed to myself by way of exposition in thus pursuing these analogies are two;—firstly, that they serve as picture frames by which to bring out more clearly the three cardinal illusions which pervade the system of Adam Smith: and secondly, that if they are sufficiently exact for our purpose, they will give us *à priori* assurance, at least, that however much modern Free Traders may agree with Adam Smith in support of the *principle* of Free Trade, the detailed arguments by which he and they respectively support it, must, if they are logically consistent, mutually destroy each other.

Now these three illusions are—

First, that Nature lends her gratuitous aid to man in Agriculture only, but not in Manufactures.

Second, that the capital of a country distributed among its various employments is, like a rigid rod of definite length, fixed in amount; and that its separate divisions or segments operating independently, draw capital *away from each other*, instead of the profits of each reinforcing the capitals of all the rest as additional contributions to a common fund.

Third, that the economic procedure which would best advantage *the world as a single economic whole*, would also necessarily best advantage *each nation when in trade relations with other nations*.

Now that these are all illusions will be seen if we apply our analogy of a vertebrate animal to the organization, processes, and development of industry at the present day. To begin then with each nation as a separate unit;—the first point we

would note is that there is no absolute supremacy of Agriculture as an investment over all other investments of capital,—over manufactures, for example, or the shipping and foreign trades —on the ground which Adam Smith claims for it, that it is only in Agriculture that man gets the assistance of the powers of Nature; for at the present day the gratuitous assistance given to man in Manufactures, Transport, and Shipping, by the powers of steam, electricity, etc., is a hundred to one for each unit of time and unit of cost incurred, compared with that given to man in Agriculture, even at its present advanced stage of cultivation and productiveness. Nor is there any definite order or hierarchy of *precedence* in which the different employments of capital ought to follow one another if they are to yield the greatest amount of wealth either to individuals or nations, as Adam Smith contends, but on the contrary agriculture, manufactures, and transport facilities must form an organized group and *all be present together* before wealth can begin to accumulate at all. And therefore to put all available capital into the land until it can absorb no more, before you allow it to overflow into some kind of manufactures to make the product available for human use, would be to have that product rot on your hands, as corn would do without some kind of mill to grind it or utensil to cook it; and if at the same time there were no facilities for transport either—no roads or bridges or boats or canals to carry the corn from the points at which it was produced to the points where it was wanted for human needs,—what would the capital sunk in the land and manufactures avail? For just as in the vertebrate animal body there is no definite order or precedence of functions, but the vital resources of the whole are always concentrated on the parts that are most in need of help through injury or disease—in casting off germs that impair nutrition, or poisons that impede digestion, or in repairing broken bones that destroy locomotion—so, that particular investment of capital will be best for the individual or the nation, which at the given time

or place supplies a gap in the production of articles or implements needed for the full efficiency of the rest, or which removes some obstruction to their harmonious co-operation,—whether it be primarily a matter of agriculture or manufactures, of transport or the demands of foreign trade, matters not. And if so, why then should foreign or Colonial trade be necessarily postponed to the home trade, as Adam Smith demands, on the mere ground that, like the tail of the tape-worm, it occupies the lowest place in a fancied hierarchy based on its relative distance from the head? The soil of Attica, for example, was barren; but did Athens wait until her last square yard of territory was cultivated to its extreme limit before she took advantage of her geographical position to make herself the centre and emporium of the foreign trade with the Archipelago, with her colonies in Asia Minor, and with the Eastern Mediterranean generally? Again Venice, Florence, Genoa, and the other great cities of Italy in the Middle Ages had no territory to speak of; but did they therefore wait to go through the different stages of Adam Smith's formula in the cultivation of their land, or even in the development of their manufactures, before they dared venture on the foreign trade with the rest of Europe and the East which made their fortunes? Or again, did Spain and Portugal wait till they had exhausted their available capital in agriculture and manufactures before they could bring themselves to set sail for America to exploit their newly discovered silver mines? And the same questions may be asked of Holland and England.

With regard to the second illusion which I have mentioned, we have to ask;—is the capital of a country so fixed and rigid a thing, as Adam Smith contends, that when any part of it is invested in one or more employments, however profitable, it must be *withdrawn* from all the rest? Is the distance from home and the slowness of returns of foreign or Colonial trade so great a detriment, that the home trades may starve in the meantime? Or are the risks of these trades so great, that not

even the legal monopoly they enjoyed, and the enormous profits which they admittedly brought home, could abate that detriment? To bring it to the test of fact, we have only to ask;—did any one or other or all of the nations and States we have just mentioned find that their distant voyages to the East and West, the length of time they lay out of their capital, and the risks involved in their adventurous journeyings to and fro, added more to their wealth than if they had waited until all their capital could be invested in agriculture and manufactures at home, or did they not? To imagine that they did not, as Adam Smith insists, is to be under the same illusion as if one were to suppose that the heart of a vertebrate animal, which pumps blood to the stomach, is *not* enriched by the products which the work of that stomach returns to the heart, but is impoverished by it; that it is further impoverished by the blood which it pumps into the lungs and which returns to it with its life-bearing oxygen; and that it is still further impoverished by the blood which it sends to the tissues and limbs which give to the creature the strength and locomotive power on which not only the heart but all the other organs of the body depend for the supply of food which nourishes them. To imagine this is to imagine that Industry is so lowly organized a thing that its capital when divided into segments can be stretched out so far that however reproductive and life-giving the segments may be, they will become like a useless endless tail which depletes the entire organism by the amount of nourishment it draws to itself; or like the sections of an over elongated bridge without supports, which will fall by their own weight. It is the old symbol of the stick cropping up like a bed-rock through the superincumbent strata with which Adam Smith has overlaid it, and as we shall see presently, is one of the most pervading of the illusions and dangers with which his system is charged.

But carrying these analogies, and the implications we have drawn from them, lightly in our minds for the present as mere

analogies, we have now to see that they will be converted into substantial arguments if we discuss in detail the third illusion I have mentioned, which also pervades his whole work: the illusion, namely, that what is best economically for a nation *standing by itself* is best also for a nation *trading with other nations*, and that what is best for *nations trading with other nations* is best for *the world conceived as a single unity or whole.* But before entering on the criticisms proper to this section, I desire in passing,—with the object of giving definiteness and focus to our point of view,—to recall the reader's attention to the fact insisted on in an earlier part of this volume, that the subject-matter of the applied Science or Art of Political Economy is not what will best advantage the economic interests of a nation standing by itself, nor yet again of the world conceived as a single political and economic unity (for the millennium has not yet come), but what is best for nations in trade relations with other nations such as exist at present, and are likely still to remain for some ages. If, therefore, we can show that Adam Smith's principles when applied to a particular nation must be entirely reversed when applied to a nation in trade relations with other nations, we shall have gone far in weakening the main supports of his system; but if we can also show that while the modern Free Traders agree with him in his *principle* of Free Trade, they repudiate every *argument* by which he supports it (as, indeed, they must if our analogy of the worm and the vertebrate animal have any validity); and if at the same time we can prove that he in turn would repudiate every argument of theirs, then we shall have gone a long way in discrediting his system as a whole. To this task therefore I shall now address myself, and shall take up his positions one by one.

To take first the question of the order or hierarchy of wealth-producing employments. Now there can be little doubt that if each nation were regarded abstractly as a separate isolated economic unity, there would be an ideal

hierarchy of wealth-producing employments proper to that nation: and that when this were once ascertained, the investment of the capital and labour of individuals in them in that order would be for the best economic interests of the nation as a whole. But far from that order being stereotyped for each nation, as Adam Smith would have us believe, it must be as different for each nation as is the geographical situation of that nation, its natural resources, or the genius and environment of its inhabitants. In one nation, the fertility and special characteristics of its soil would claim first consideration in the hierarchy,—whether as corn-growing, fruit-growing, wine or tobacco-growing, sugar-growing, or what not; in another, its mineral wealth or the special character of these minerals, as gold, silver, iron, or copper; in another its geographical position as a trading centre among the other nations, its facilities for transport, its access to the sea, and the like; in another the particular form of artistic or mechanical skill peculiar to the race of men who inhabit it; and so on. But although as *abstract potentialities*, nations would be right,—at any rate in the beginning of their careers and when they were feeling their way as it were,—in following the order of these special excellences in the investment of their capital, still, when once all tariff barriers had been thrown down and the free interchange of commodities between nations was given full play, there would be no more guarantee that by following this absolute or ideal order they would accumulate the greatest amount of wealth, than in the parallel case of individuals. For the question would now be, not so much of any abstract hierarchy or order of excellence proper to a nation itself, as of the order of its *relative* superiorities when drawn into the whirl of competition with other nations; not of what it most prizes itself, but of what is most in demand by others; not of separate single excellences, but of combinations or special peculiarities which make them acceptable over a wider field; not, in a word, of 'values in use,' but of 'values in exchange.'

It is precisely the same as in the case of the individual, whose *pecuniary* success in life will depend not on the absolute superiority of one over another of his various qualities—whether of intellect or heart, of courage, of tenacity, of physical prowess, or what not,—but on those combinations or peculiarities which find the greatest favour among his fellow-men. In the *natural* order, the strength of a man's bent may lie in the higher domain of intellect proper,—as of poet, philosopher, scientist, artist, or musician,—but he may find it more to his pecuniary advantage when he has to compete with a better man than himself in any of these lines of work, to mingle his proper superiority with strains of a lower nature, like gold with the baser metals, to give it a wider currency or working efficiency; and so may do 'pot-boilers' instead of masterpieces, or turn society novelist, popular preacher, peripatetic lecturer, music hall entertainer, or even fall back on still lower planes and become a jockey, clown, professional sculler, footballer, or cricketer. It is the same in commerce and industry. Land, manufactures, and the wholesale trade may stand higher in rank than other employments, owing to the greater amount of the 'values in use' which they supply, but so far as any individual is concerned, he may make his fortune as easily out of stock-exchange speculations as out of land; out of gambling as out of manual labour; out of drugs or drinks as out of food; out of a good voice as out of a good estate. It is precisely the same with an individual nation standing in trade relations with other nations. For it may gather to itself more wealth from its diamond fields than from its corn lands, from the flavours of its wines or tobaccos than from its coal or iron, from its carrying trade than from its manufactures, from its supply of luxuries for the few than of necessities for the many. All will now depend, not on the *absolute* superiority of the commodities in which it deals judged by the standard of their 'values in use,'—as would be the case if the nation stood alone by itself,—but on the *relative* superiority of these commodities to those

of the same class in other nations, as measured by the extent of the market they can make for themselves there, owing to the cheapness of the cost with which they can be produced and delivered: in other words, on their 'values in exchange'—an entirely different category of economic science.

Or take again the case of gold. If a nation stood alone by itself and had nothing to depend on but its gold mines, gold would take its place at the *lowest* point in the hierarchy of wealth-producing assets: for it could neither support life like corn, nor give warmth and comfort like the produce of manufactures, nor transport like horses and carriages, nor be made into useful implements or utensils, like iron or tin, and if it were produced beyond a certain amount would have little more value than the stones in the street. And so too in the world as a whole conceived as a single political and economic unit; for as a *medium of exchange* the use-value of gold would be of little account. But observe how different is the position it occupies in a nation standing in trade relations with other nations. For now, gold will take its place at the top of the hierarchy of wealth assets, however much of it (or its credit equivalents redeemable in it) may be accumulated, or by what employments, services, or business functions soever it may have been acquired; all of which as well as the agriculture, manufactures, home trade and shipping, on which Adam Smith laid so much stress, must now take their places *below* it, their order in the hierarchy being now a matter of indifference; for each and all of them will have much, little, or no value at all, precisely according to the amount of this gold or its credit equivalents which they can command. In a word, gold will have now become a 'measure of value,' and no longer remain in the economic category of a 'medium of exchange.'

The same fallacy in identifying the economic interests of nations standing economically alone and independent, with those same nations when in trade relations with other nations, is seen in the importance which Adam Smith attaches to the

number of artisans and labourers required in different employments, as giving investments in these employments their relative position in his scale or hierarchy. For although this consideration may be of the utmost importance for national defence, for the civilization and culture that come from the close association of aggregates of men (as seen in towns versus the country districts), as well as for the varied life essential to human beings in civilized States; on the other hand, for the accumulation of wealth by a nation freely trading with other nations, it is a matter of the smallest importance. Half a dozen men on a desert island who were sure of picking up a Kohinoor diamond every year, might command and continue to command as much of the wealth of the world of every species and variety, as many a small State supporting a working population of peasant proprietors as thick on the ground as moving ant-hills, and sweltering their lives away from morning to night in the sun.

And so again with the economic principle of Monopoly, against which Adam Smith has directed all his batteries in his chapters on the Colonial trade. It will be remembered that he had no objection to that trade in itself, if only it had been thrown open freely to all the world; what he objected to was the *monopoly* which England had gained in it. And the reason he objected to this monopoly was, that it seduced individuals to invest their capital in it out of the proper *order* of that hierarchy of wealth-producing investments which he had laid down, thus withdrawing capital, as by a kind of hot-house forcing, from the still greater wealth-producing employments of Agriculture, Manufactures, and the Home trade, and thereby lessening the possible wealth-producing capacity of the mother country as a whole. But here again he was confusing the effects of a monopoly conferred on one trade as against another in the *same* country, with the monopoly of one country against another in trade relations with it,—a fatal oversight. It is admitted, for example, that the patents of monopoly

conferred by the Tudor and Stuart sovereigns on their favourites or parasites were a pure detriment to the nation, inasmuch as, unlike patents for new or improved processes and mechanical inventions, these monopolies neither tapped new powers of Nature nor increased the capabilities of old ones, and so added nothing either to the immediate or permanent wealth-producing assets of the country. But a monopoly obtained by one nation over the productions of *another*, whether natural or artificial, whether at the bottom or at the top of the economic hierarchy, is quite a different matter, and is the greatest of all the wealth-producing assets which any nation can acquire. It matters not how or by what means it is acquired;—whether frankly by the sword, as by Rome over her conquered provinces; or by the despotism of a mother country over her Colonies, as that enjoyed in the time of Adam Smith by Holland, Spain, Portugal, and England; whether by the fact of geographical situation, as of Venice and the other Italian Republics before the discovery of the Cape route to the East; or purely by unequalled facilities for production, which in certain classes of commodities can beat all rivals out of the field, as in the case of the silks and wines and artistic skill of France, or the cotton, woollen, and cutlery manufactures of England; or again by giant combinations of capital in the hands of a few men in a particular nation, which by strategetical dispositions are able to quash the opposition of the dispersed and smaller capitals of other nations,—as in some of the combinations preparing in America at the present time, and so on. For monopolies of this kind, of one country over another, are as great a national asset as is the domination of one country over the resources of another through conquest in war; the only difference being, that whereas in the latter case the tax is taken directly as tribute, in the former it is taken by a monopoly of trade. Neither is at all likely to be achieved without 'prayer and much fasting,' and without being worked up to by the blood or sweat of many lives, continued,

perhaps, through many generations: but once gained it is a wealth-producing asset not lightly to be thrown away. For although the world is slowly outgrowing the lust for territorial conquests in its zeal for a more concentrated racial or geographical independence, this lust for trade monopolies of one nation over another burns more fiercely than ever, and is the ideal goal and ambition of the business men of every nation the world over. And the reason is obvious. For a monopoly by its very nature has precisely the same effect on the fortunes of the individual or nation that has managed to secure it, as if that individual or nation had beaten its rivals out of the field by fair competition on even terms, inasmuch as, like the bank of Monte Carlo which by its zero has the advantage over all the players in every spin, a smaller amount of labour expended in production by the monopolizing individual or nation will always, by the pressure that can be brought to bear, exchange for a larger amount of the labour of those with whom they are trading. All this, of course, Adam Smith saw quite well, and the reason he denounced the Colonial trade was not so much because it was a monopoly, but because, as we have said, being a monopoly it drew capital *away* from the still greater wealth-producing employments of Agriculture, Manufactures, and the Home trade.

Now that Adam Smith should have imagined that the Colonial trade (protected against risk by its monopoly, and bringing home the enormous profits which as he frankly admits it did) could have withdrawn capital from *anything*, can only be explained when we fix our eyes on the second great illusion with which he was imbued,—that old and fundamental illusion of the orthodox Economists which they have nurtured and cherished to this hour,—the illusion, namely, that wealth in general is a fixed and statical rather than a dynamical and flowing thing, and that capital (the part of wealth set aside for production) is like a rigid rod of definite length or amount, divided and distributed among a number of employments, and

each part functioning in definitely divided periods of time: so that the whole shows like a long-extended straight line, made up of separate items of wealth and capital, passing before the observer as the separate pictures in a panorama, but with no logical provision for their *return*; instead of being, as it really is, a circular movement, whereby as goods pass out of the front yard and doors of the factories and warehouses of the world, the return profits from their sale keep the stocks in the back-yards constantly replenished and increased. And in accordance with this illusion we find Adam Smith figuring the Colonial trade as a succession of ships passing in the night one by one into the outer darkness of the Colonies, on voyages of two, three, or five years duration, but with their return journeys and the wealth they brought with them either *suppressed* in his argument, or left vague and without logical recognition. For out of a divided and extended straight line, it is impossible to get a circular return movement;—and for this an entire reconstruction of the very basis of our science is necessary. And hence Adam Smith, after starting out his ships laden with a definite amount of capital,—which on his divided stick doctrine he represents as having been withdrawn from other more productive occupations, like agriculture, manufactures, and the home trade;—and finding that they do not return at the end of the year, asks the reader to note the circumstance; and when at the end of the second year they have still not returned, he begins to regard the situation as grave; until before the end of the four or five years period is up, he can no longer restrain himself, but demands whether there can now be any doubt that agriculture and the home trade are being bled to depletion;—so depleted, indeed, he thinks, that with their high famine prices they can no longer compete in the neutral markets of the world. Now all this is a most obvious delusion. Had he seen that all economic operations whatever are flowing and continuous, and not rigid, fixed, and disconnected; and that they conform in their nature to dynamical and not statical laws,—

to the laws, in short, of a continuously running wheel,—he would have remembered without prompting that ships *must* be returning laden from the Colonies as fast as they were setting out: and further that owing to the monopoly of the trade by the mother country, for every pound of capital embarked in the departing ships, two pounds worth, say, were being brought home *simultaneously* by the returning ones. And as this excess of wealth brought into the country over what is going out of it can be turned into money, and as money is capital, and can be invested if necessary in that very Agriculture or Manufactures whose starved condition he is deploring, how or why, we ask, should or indeed could capital by any amount of it being invested in the foreign or Colonial trade, be *withdrawn* from the home trade, or from any trade or business whatever? When Adam Smith wrote, the Colonial trade had already been fully established for some generations, and if, as he declares, men were no longer putting their capital into agriculture and the home trade, or into the Baltic and the Mediterranean trades as formerly, the reason, among other things, was because they were not going to put it into a ten per cent. trade when an equally safe twenty per cent. one stood openly inviting them; but certainly not, as he thinks, because of any *scarcity* of capital. For how can capital become scarcer in a country where any investment is bringing into it more than it carries away, and especially when it is reproducing itself with more, not less, than the usual rate of profit in every unit of time? How, indeed, could Adam Smith so persuade himself, unless in the background of his mind he had been in the habit of figuring wealth-production as if it were a definite length of rod from which if any part is cut off for investment in one employment, it must necessarily be so far withdrawn from every other? How, indeed, I repeat, unless he also figured Time itself as, like capital, split up into rigid definite divisions, on one or other of which he planted himself so firmly that if the world drew its money out of the bank for investment in the morning, and

its returns had not come in by the evening, he could weep over it, as if the capital of the country had been forever lost to industry? And I cannot too strongly insist that if this fallacy, begun by Adam Smith, and propagated through the line of his orthodox successors to the present day, continue to be applied in economic reasoning, it will end (as we shall see increasingly illustrated in the writers whom we have still to pass under review) by economists taking up a position identical with that of those over subtle Greek philosophers, who if Achilles did not overtake the tortoise *at once*, were prepared to prove to you that he could not overtake it to all eternity!

Now Adam Smith seems himself to have felt dimly conscious that there was something in this theory not quite convincing; and in his efforts to put it right, he was betrayed into the single instance of disingenuousness which I can recall in his works. I should not have referred to it, but for the tendency it has to mislead the reader on a question so important as the one we are now considering. It makes its appearance when he has to face the fact that however long his Colonial ships may be away, they must return home at last bringing their enormous profits with them; for then his readers will want to know what will become of this great accession to the wealth of the country. Re-invested in still more ships for the Colonial trade is his first answer; for the capital, he thinks, which this trade is capable of absorbing and withdrawing from agriculture and the home trade is almost unlimited. But as a time must eventually come when the trade can absorb no more, and the question still presses as to what will be done with all this return wealth which must then pile itself up in the mother country;—if he is asked what living reason he has to offer why it should not be reinvested in the land and home trade as well as in the near foreign trade, he executes an insidious flank movement which gives evidence rather of his dialectic skill than of that high-minded candour and truth-loving philosophic character for which he is so justly revered. For he asks his

readers to come with him to Cadiz and Lisbon, and see for themselves what the Spanish and Portuguese merchants there are doing with the enormous wealth which their ships are bringing home from the monopoly of their American gold and silver mines. Are they re-investing it, he asks, in the land and manufactures of their respective countries—which so badly need it? Not at all: on the contrary, he says, you have only to open your eyes to see that they are spending it in idle luxury and ostentation,—in trains of dependents and unproductive labourers,—and so in corrupting the minds of the people by setting them an example which they are only too ready to follow,—especially, he thinks, when merchants set the fashion of extravagance and waste, rather than of parsimony. And then, dropping the subject with a shrug, he leaves the reader with the impression that this is how the wealth that is pouring in on the English merchants engaged in the Colonial trade will,—as that of the *nouveaux riches* everywhere,—be spent also. But where is the disingenuousness in this, the reader will ask? To see it, we have only to let Adam Smith tell us himself what would become of the still greater wealth which he contends would accrue to the country as a whole if it followed his own advice,—which was to cancel the monopoly of the Colonial trade whose high profits had seduced the nation from its true path, and to throw it open to all the world; for then you would see that capital would follow that natural order and hierarchy which as we have seen he had laid down, and which would be the most remunerative alike for the individual, for the nation, and for the world as a whole. But if, for the nonce, we agree with him in this, and then ask him in turn into whose lap the main part of this great increase of national wealth (vastly greater indeed in his opinion than from the monopoly of the Colonial trade) will fall, he has himself frankly told us—into that of the landlords! Not into the pockets of the farmers, be it remembered, for under any circumstances, he admits, they will get no more than the current rate of profits for their

investments, for whatever is over will be skimmed off like cream, and go to the landlords as rent; not into those of the manufacturers or wholesalers, who will also get only the ordinary rate of profits; and least of all into those of the foreign traders and Colonial merchants, who not only have to share the profits of the trade with the foreigner, but have, on account of the distance and expense, to remain out of their capital for the greatest length of time. Into the pockets of the landlords, then, according to Adam Smith will go that greater increase of wealth which will accrue to the nation by following the natural order of employments which he has laid down,—instead of the inverted order which begins at the tail-end with the hot-house growth of the Colonial trade, stimulated into undue activity by a monopoly, to the starvation of the more productive occupations of agriculture and the home trades lying above them in his scale. And now, if remembering the Cadiz and Lisbon merchants, we ask him in turn;—in what productive employments the landlords were investing their present wealth, or were likely to invest it if it poured in on them in still greater streams, his preconceptions and perhaps his prejudices get the better of his judgment, and he replies extenuatingly that *some* of it at least is invested in the cultivation of their lands. But as he does not deny that even the Cadiz and Lisbon merchants kept up the equipment of their trading ships,—we want to know, in order to make the comparison fair, what the landlords are supposed to do with the *bulk* of their incomes, which, with their corn laws as feeders, formed in his day the main part of the wealth of the nation? Did they invest in land a tithe of it compared with what the steady-going British traders and manufacturers invested in every occupation in which they were engaged? On the contrary, unless all history is a fable, the landlords, of all people! and especially the landlords of the eighteenth century, were the most 'chartered libertines,' and spent their rent-rolls,—as indeed, for that matter, they were expected to do,

—in every form of idleness, luxury, and ostentation, and in the support of the tribes of menials and other unproductive labourers proper to the good old feudal times. And Adam Smith knew it, and knew besides that it was not the merchants who corrupted the masses of the people by their extravagance, but that it was the landlords who, beginning by corrupting the merchants, set an example which as it propagated itself downwards to the lower ranks of the people, ended by corrupting all alike. And this is why I have accused him in this particular instance of moral disingenuousness, and of straining at a gnat in playing off the idleness, luxury, and ostentation of the Spanish and Portuguese merchants, in order to eke out his argument against the Colonial trade; while to support his own views, he swallowed a ten times greater idleness, luxury and ostentation, in the case of English landlordism, without a hint of disapproval or a word of comment to veil his inconsistency;—a disingenuousness unworthy of his rôle as a philosopher.

CHAPTER V.

ADAM SMITH *versus* THE MODERN FREE TRADER.

AND this leads us to the last and most important of the principles of Adam Smith with which we have to deal,—and that is the principle of Free Trade itself. Now, the first thing we have to note is, strange as it may seem, that when compared with the Free Traders of the present day, not only was Adam Smith in point of fact very questionably a Free Trader at all, but every one of the arguments by which he defended the *principle* of Free Trade, would as I have said be rejected by them; while on the other hand, not only would all the actual present day results of Free Trade have been anathema to him, but he would have repudiated all the arguments by which they defend them. So that we have this curious anomaly to deal with, that while earlier generations of Economists and Statesmen accepted the *principle* of Free Trade from Adam Smith by reason of the arguments by which he supported it, the present generation of Free Traders still hold fast to the principle, while renouncing one by one the arguments which gave it all its power! And perhaps the quickest and most effective way to prove this to the reader will be to imagine Adam Smith reappearing in our own time, and confronted with the modern Free Traders who are his avowed disciples;—time having been given him to look around

and see in what the full fledged doctrine of Free Trade, carried by England to its extreme limits since his day, has eventuated. The first thing he would notice would be that the land,—which with him as we have seen was the very 'apple of his eye,' the chief source of wealth, and the crown of his hierarchy of wealth-producing employments,—was going more and more out of cultivation; that in the course of twenty or thirty years the landlords' rents had fallen a fourth, the farmers' capital a half, and that the population working on the land was now only half of what it was fifty years ago;—and all, by unanimous consent, as the result of the application of the purest principles of Free Trade. And further he would notice that the foreign, the shipping, and the colonial trades,—the monopoly of which he denounced in his own time because they drew capital away from agriculture and the home trade,—were the greatest asset in the wealth of England. And if we should ask him what he thought of all this, can there be any doubt that from his own principles and doctrines carefully considered and developed as parts of a united and harmonious scheme, he would feel obliged to disown and condemn it? For was not this very result precisely what the monopoly of the Colonial trade which he condemned, was bringing to pass? And if Free Trade were to lead to the same result, would he not feel obliged to condemn it? For it was not the monopoly *as such* that he condemned, as being an infraction of Free Trade; he condemned the monopoly because it led to the universal stimulation of a less productive occupation, to the disadvantage of a more profitable one,—of Foreign Trade, *viz.* to agriculture and the home trade; and as he thought that there was only a *definite* amount of capital in the country to divide among the different occupations, the more that was invested in occupations deriving no assistance from the Powers of Nature, the less would be left for Agriculture, the only one of them in which such assistance was freely given. It was all a delusion as we have seen; for the Colonial trade, owing to the monopoly, was actually

bringing home enormous profits which could at any moment have been invested in Agriculture—or any other languishing trade,—had it been a desirable investment. But the spectacle of the enormous increase of the wealth of England through her foreign and Colonial trade, even when her Agriculture was decaying, would have struck the mind of Adam Smith with a kind of despair, and he would have been put at once on the horns of a dilemma. He would either have had to admit that the arguments by which he supported the *principle* of Free Trade rested on a rotten foundation, or if he still stuck by his arguments,—which all hung, it will be remembered, from the doctrine of the Physiocrats, that in Agriculture alone Nature lent her assistance, but not in any other employment,—he would be obliged to admit that a principle which in its actual working out had so upset all his calculations and predictions, must itself be a delusion. So far Adam Smith,—if he came to life again.

But now let us see in turn what the modern academic Free Traders have to say to the *special arguments* by which Adam Smith supports his principle of Free Trade. We can answer at once;—they reject every one of them, not only all his positive major arguments but all the minor negative ones by which in his weak-kneedness, as they love to think it, he sought to limit and modify it. They reject the latter, because Political Economy having divorced itself since his time from the higher considerations of political and social ends, and become a narrow specialism, they can find no place for them in their science. On this ground they reject, for example, his defence of the Navigation Acts;—those Acts which by taking advantage of England's supremacy in manufactures, put so great a pressure on all the nations which were obliged to buy their manufactured goods from England, that the Mercantile Marine of Holland was finally driven from the field;—Acts which as a *protective* policy Adam Smith defended on the purely political ground that the defence of a country was more important than

its opulence. They reject also, as being an infraction of their abstract ideal, his doctrine of the protection of 'infant industries,'—a measure which Mill also grudgingly allowed as a temporary expedient whereby the superior natural resources of young countries should have time given them to make good their footing in the world. They reject also, and on the same ground, Adam Smith's support of government subsidies to railways, canals, etc., which have a future in them for the benefit of the nation, but the risks attending which are often so great as not to justify private individuals in sinking their capital in them. They reject also, as savouring of Protection, all those 'drawbacks' which were common in his time, and which he would still allow in the shipping trade for the purpose of opening up new markets in those distant countries not already covered by the Colonial monopoly. And finally,—owing to the laissez-faire doctrine with which the Free Trade doctrine is bound up,—they reject, in principle at least, all emoluments, subsidies, or helps whatever to anything and everything however noble in itself, or for the ultimate greatness of the country, which cannot either by *private enterprise* or by *voluntary* contributions collect sufficient funds to sustain itself—whether it be for scientific research, for the furtherance of the best trade processes or methods, for the detection of adulterations operating to the detriment of great masses of the people, for the advancement of the higher ranges of knowledge, or for any purely national interest that cannot be voluntarily carried on the shoulders of individuals. All these, however, are merely negative attitudes, which being mingled as they are with political considerations, the present Free Traders may regard as properly falling outside the bare bones of their meagre economic specialism.

But Adam Smith's *positive* arguments in defence of Free Trade on its purely economic side, they reject *in toto* as well. And this is just what we should have known must be the case. For between the time of Adam Smith and the era of full-blown

Free Trade on which England has entered since the repeal of the Corn Laws, the entire organization of the industry of the world had been so revolutionized by mechanical invention, facilities of transport, railway communication, the development of international credit, and what not, that if we may figure it as having a separate life of its own, like an animal, it can no longer be regarded as of the same species; it has now no longer, as I have said, the simple organization of a worm, but rather that of the higher vertebrates. For if we consider it, in the time of Adam Smith, each nation was practically a self-contained unit, and the transport between them being by long sea voyages, nothing but the most durable commodities, of the smallest bulk, or of the most special excellence, could get a foothold for successful competition with the home trades of other countries in the same line of goods. Gold, of course, could find a market everywhere, so could French silks or wines, so too English manufactured goods, American cotton, sugar, or tobacco, by reason either of their unusual cheapness,—as was the case with English goods,—or of their limitation to particular countries only.

Adam Smith, then, it will be remembered denied that the Agriculture of England could ever seriously suffer from foreign competition, even if the Corn Laws of his time had been abolished; and this he did, first, on the ground that the cost of growing corn was practically about the same in all countries, and secondly, because of the great difficulty and cost of transport,—a difficulty and a cost which were, of course, increased in proportion to the distance of the competing countries from each other; while as for cattle, owing to the expense of feeding them on the way, competition except in the case of the most rare and valuable breeds was almost nil. Agriculture, then, which in his opinion was the greatest of all wealth-producing assets for each nation, could never, he thought, be seriously endangered by foreign competition even under a universal régime of pure Free Trade; and as the manufactures of his

time were mainly 'cottage industries,' the products of hand-loom and other primitive machinery (for the steam engine was not yet invented) and were intended mainly for home consumption,—except in certain favoured instances like English cutlery, French silks, etc.,—they could, he fully believed, have nothing to fear from Free Trade. And as in these highly specialised manufactures themselves, each the product of a different country, nobody had ever denied that being *complementary* and not *competitive* products, the freest possible exchange, unhampered by tariff barriers, would be best economically for both parties to the trade, it followed that with the wines and silks of France exchanging freely for the cutlery of England, the spices of the East for the manufactures of the West, the fruits of the South for the corn of the North, Free Trade would, economically speaking, be from every point of view of the utmost benefit to all nations, without seriously endangering through competition the special wealth-producing powers and instruments of production of any,—and could therefore be entered upon by all alike at once and without fear. Now, if we ask what the modern Free Traders would say to these arguments of Adam Smith in favour of Free Trade, can there be any doubt that however fully they agree with him in the *principle* of Free Trade they would feel obliged to reject each and every one of them? They would simply laugh at his doctrine that Agriculture is a more productive source of wealth to nations than Manufactures or the Foreign Trade; for in the present day, owing to steam, electricity, and mechanical invention, one nation will have ten times the powers of Nature locked up in its minerals that it has in its agricultural land; another in its ships; another in its manufactures, and so on; and as for England, the increase from her land is not, and could not be, under the highest and most intensive cultivation, a tithe of what it is from her manufactures, her minerals, and her shipping trade. If this be not so, why should the modern Free Trader as vigorously defend the decay of her agriculture

in favour of her manufactures, as Adam Smith, from his arguments, would have condemned it? In fact, for any particular nation having trade relations with other nations, mere agricultural land as such may be left out of consideration, except in those few instances where it still continues to be the main wealth-producing asset. They would laugh, too, at his doctrine that difficulty and cost of transport—the barriers on which he relies for making nations safe from foreign competition under Free Trade,—were to-day any serious or effective barriers at all: for they too are being more and more annihilated by railways, electricity, and steam navigation. They would reject also his doctrine that those classes of manufactured goods which from the smallness of their bulk and consequent cheapness of transport could compete with each other, were so specialised in *different* nations that they were the subjects of complementary instead of competitive exchange; for in the present day most of the half-manufactured and fully manufactured articles which are the subjects of international exchange are common to half-a-dozen of the richest and most enterprising nations of the world, and are therefore wholly or mainly *competitive*; otherwise why should these nations fence themselves about with protective tariffs as defences against each other's goods? And again, just as the modern Free Traders reject Adam Smith's doctrine of the supremacy of Agriculture over all other wealth-producing instruments, whether of home or foreign trade, so they reject his doctrine that a home trade has a supremacy over a foreign trade; and especially his fictitious distinctions of the relative importance of the different branches of the home trade; as, for example, his doctrine that next to agriculture in the hierarchy of wealth productiveness stands manufactures, on the ground that they employ more productive labour, and have a quicker turnover than the wholesale home trade; and that the wholesale home trade in turn is more productive than any foreign trade whatever (even if you had a monopoly of the

latter as against the world) on the ground that it gives employment to two home capitals instead of one home and one foreign one; that it has a quicker turnover of capital than the more distant foreign ones; a greater number of home employers; and that it is attended with less risk. All these arguments they would brush aside as, in the present day, mere irrelevancies, and would take their stand on the broad fact that where trade is free, and business men are left to their own devices, they can always be trusted to place their orders and negotiate their sales at the best points for their own advantage; and that it matters not, so long as they see their way to a profit, whether they invest in home trade or foreign, in agriculture or in manufactures; whether their business employs many workmen or a few; whether it employs two home capitals or only one; whether the trade is a distant or a near one; whether it is absolutely free from risk or the risks have to be covered by a higher price; whether they have to lay out of the returns to their capital for a greater length of time, a month, or a year, or in some businesses, as in the laying down spirits or wine, for five or for twenty years. Otherwise how could they stand calmly by, and see Adam Smith's doctrines put to open shame in the market place, and not only encourage manufactures as against the agriculture of their own country, but foreign manufactures (for the sake of cheapness of product) at the expense of the home ones which by competition they have driven from the field? For, observe, that Adam Smith would only permit capital to be invested in foreign trade when it had *overflowed*, as it were, from the home trades in a natural way, and not until the land, manufactures, and home trades had absorbed all the capital that could be put into them. Indeed, as we have seen, his main denunciation of the Colonial trade of his time (even when it was protected by the monopoly which England had over it) was because of its drawing capital away *unnaturally* (by reason of the monopoly) from a more productive source of wealth to a

less one. And it was because he believed, and thought he had demonstrated, that Free Trade would prevent all this, that he advocated it. Had he lived to-day and seen that with Free Trade in its full fruition and bloom, and with no monopoly or tariff to interfere with it, the Foreign Trade has in actual fact drawn a large part of the capital of the country into it and into the shipping trade, and away from many of the home manufactures,—and especially from agriculture,—is it possible that he could have approved of it? From all of which, can it be doubted that Adam Smith was a Protectionist in his heart, and that he was a Free Trader only because he thought and believed that Free Trade was the best instrument or policy for bringing about the ends he had in view; and that had he lived now, and seen each of these favourite doctrines of his in turn belied, and indeed completely reversed, by the actual facts, he would have been as eager to put up tariff fences for their protection as in his own day he was to abolish them? The two principles on which all his political economy turned—namely the supremacy of agriculture and the barrier offered by distance and difficulty of transport—having been completely reversed and almost annihilated since his time, what logical alternative could he have but to discard either his arguments, or his policy, or both? If not his arguments, then logically he must renounce his principle of Free Trade and become a Protectionist; if not his principle and policy, then he must renounce his arguments, each one of which in turn, as we have seen, the modern Free Trader repudiates. And lastly, after thus rejecting all the special arguments by which Adam Smith defended his principle of Free Trade, the modern Free Traders reject his *political* remedy as well,—his proposal, namely, to abolish the monopoly which the mother country held over the Colonial trade which with him was the source of all the mischief (much more so, indeed, than the Corn Laws), and to throw open the trade to all the world;—not for the benefit of the Colonies, be it remembered, but for the benefit of the

mother country;—to make the Colonies contribute to the Imperial revenue the amount spent on their defence; and to allow them to send representatives to the British Parliament.

And this brings us to the most interesting and important point in the whole discussion, namely as to how or why it is that with Adam Smith and the modern Free Traders thus openly repudiating each others' arguments, they should still agree in defending the *principle* of Free Trade? For as result we have, as we have seen, this curious spectacle and anomaly, that while the earlier economists and statesmen accepted the principle of Free Trade from Adam Smith by reason of the *arguments* with which he supported it, the present generation of Free Traders still hold on to his principle after repudiating in turn each and every one of his arguments! Now the answer to this is quite simple, and leads us at once to the deepest and most central of all the illusions which underlie the principle and doctrines of Free Trade. And it is this;—that whatever policy is best adapted to increase the wealth of the *world as a single economic whole*, is also necessarily the best adapted to increase the wealth of each *particular nation* in it; and that in consequence, if all the tariff barriers between nations were thrown down, the increase of wealth that would accrue, would, like liquid manure poured out at any part of a level field divided into sections but without fences between them, spread itself out *evenly* over all, to the particular benefit of each part or division as well as to the general welfare of the whole. In this, Adam Smith and the modern Free Traders are at one, and it is this which keeps them united on the principle of Free Trade, although mutually annihilating one another in every argument by which they respectively support it. Fortunately, to get at the truth or falsehood of this theory we have a concrete instance ready at hand, which has only to be presented to settle the matter without confusing the reader with pages of abstract argument. For all we have to do is to let the United States of America represent, for the nonce, the

world as a single economic whole, and its several States (between all of which absolute Free Trade exists) represent the separate nations of which the world is composed; and then see what has happened and is happening there to-day so far as the fortunes of its several States are concerned. Does the economic prosperity of each of these different States keep pace in point of fact with the economic prosperity of the Union as a whole; and does each get its proportionate share of the wealth that is being heaped up in all? Certainly not; on the contrary, wealth, capital and population alike migrate in great masses from State to State, either driven out by the competition of other States, or attracted by the superior opportunities for accumulating wealth opened up by them. Agriculture, for example, has almost entirely disappeared from some of the Eastern sea-board States, and moved on to the West, taking its country population with it; farms are not so much sold as abandoned, the old homesteads have fallen into ruin and decay or are used as summer resorts for invalids, while the land itself has returned to its original prairie state again. Then, too, whole batches of mills and factories in one State are extinguished in a decade by the competition of another, as if a destroying angel had passed over them; and now that the great industries of the country are organized and concentrated in great Trusts, the fortunes of particular States no longer have to wait until they are annihilated by the direct impact of competition, but whole industries are liable to be dislimned at a moment by a nod from the central controlling power of the Trust—furnace-fires blown out here to be re-lit on a larger scale there, mills closed down in this State, as no longer so profitable as their concentration and enlargement in that—while the population which they support, having received their marching orders, have to roll up their tents, disperse, and steal away, like nomads in the night. And the reason is obvious. Facilities of *transport* having at last caught up with the powers of Production, the separate States of the Union no longer

exist as semi-isolated economic units, as in the days of Adam Smith, but each is in free communication with all the rest, as the organs of an animal's body are through its blood and nervous system; so that the products of each and every State, floated everywhere on this equal stream of circulation, can join issue at each and every point of the vast territory, whether for attack or co-operation; and the twin poles on which the economic fortunes of nations turn, namely *competitive* and *complementary* exchange, can operate unimpeded at each and every point with all their force. And the consequence is, that just as in the conflict of talents in an open arena and on even terms, and where there are no exclusions, the best man wins; so the geographical situations that are either richest in wealth-producing raw material,—whether of soil or of mines,—or which offer the best strategetical points for manufacturing, concentrating, or distributing it, resume their *natural* economic superiority over all those factitious advantages which bulk themselves out so bravely when from absence of transport or from inter-State barriers they are kept from a hand-to-hand grapple for supremacy. And hence, as we see, although the wealth of America *as a whole* is increased by the freedom of trade which exists between its component States, this wealth, far from diffusing itself evenly, like our liquid manure, over the whole field,—as the Free Traders imagine,—heaps itself up, on the contrary, in great piles and masses at certain geographical points,—New York, Chicago, Pittsburg, St. Louis, and the rest; the consequence being not only that the particular States in which these and other cities are situated are the richest in the Union, but that the others, especially in the remoter and less favoured regions, have had their industries so drained away, that they are relatively poorer than they were before. It is precisely the same as when a railway is being carried through a new territory;—the towns and villages on its route draw capital and population away from the surrounding districts, until when in its course it reaches some still more

favoured point for business, it concentrates there in turn all available capital and population, leaving the rest behind it as poor, if not poorer, than before It was the same when the iron and coal works of the South of England, and the manufactures of the Eastern and Western Counties took wing, and migrated to the Midlands and the North, to the sites of richer natural productions, or to more accessible centres of transport and trade,—and so made the fortunes of Leeds, Manchester, Birmingham, Sheffield, Middlesbrough, and the rest; and while enriching the counties in which these cities and towns are situated, left those from which they had migrated, bereft of capital and population, to their meadows and sheep walks as before.

Now, the same relationship holds between the economic interests of the world as a whole and those of any particular nation in it. There is no way to insure that the two will be identical, and that what is best for the world as a whole will be best for each particular nation; and the more free and unrestrained the trade between nations becomes, the more difficult will this be to effect, until with absolute and universal free trade there is neither security nor guarantee for it at all. It can neither be done, as Adam Smith so confidently and naïvely enjoins, by each nation following the particular order and hierarchy of investments which he lays down, beginning with Agriculture at the top; nor can it be done, as the modern Free Trader enjoins, by allowing each nation to invest its capital as it pleases,—whether in agriculture, manufactures, the home or foreign trade, matters not,—on the ground that each may be trusted to know its own interest best, and that where trade is everywhere free, what is best for all the nations collectively will necessarily be the best for each individually. And the reason, again, is obvious. For exchange to be beneficial to each of the parties to a bargain, and therefore fruitful and beneficent all round, it is essential that the products exchanged in each case should, like the sexes, be *complementary*

to each other and of *different* kinds.—as corn for wine, wine for manufactures, manufactures for tobacco, or spices, or furs, or what not; whereas, on the contrary, when products of the *same* kind are allowed by Free Trade to meet and confront each other in the same market, like rival gladiators in the same arena, they neutralize and extinguish each other by their competition, until only those which are *supreme*, each in its own kind, are left victors on the field. These in turn pair with each other, as it were, as *complementary* exchanges, like the finest types of manliness on the one hand, and beauty on the other, among the partners in a ball-room, and so secure the cream; while the less favoured on either side have to content themselves with the smaller markets, the hole-and-corner businesses, and like defeated stags and withered does, betake themselves to the leavings on the outskirts of the industrial field. Or to sum it up;—the reason that absolute Free Trade if made universal would be best for the world as a single economic whole is that it would offer the fewest barriers to those complementary exchanges of *different* products in which the very essence and *raison d'etre* of all fruitful exchange consists; and especially because being co-extensive with the whole world, every quality, form, degree, grade, or variety of natural product or manufactured article which can be grown or produced in any nook and corner of it,—with its infinite varieties of soil, its profusion of animal and vegetable life, the special talents, natural or acquired, peculiar to its races and peoples,—can, when set afloat on the stream of circulation, find a larger market for itself with the whole world open to it, than it possibly could if by tariff barriers its market was confined to its own particular national territory alone; in the same way as in the human body, where it is seen that of all the varied food products that are eaten, none is so poor and useless but when thrown into the circulatory blood stream it will always find some part of the organism to take it up and utilise it, even if it were only used for the growth of the hairs or nails; whereas

if forced to confine itself to this or that particular organ by reason of barriers in the general circulation, much of the food that was apportioned to any particular organ could not be utilised by it, and so most of what was eaten would be wasted and thrown out as valueless excreta. In the same way, if all the products of a particular nation were obliged to find for themselves a market in that nation, owing to tariff barriers preventing them from finding their natural market elsewhere, they would either be wasted, and cease to be produced at all, and so a diminution of the possible wealth-production of the world would result; or if produced, would exchange for *less* of the products of other nations, owing to the cost incurred in surmounting the barriers raised against them. In a word, then, universal Free Trade, by permitting each and every kind of natural, artificial, or manufactured product, to find most easily a natural home and market for itself *somewhere* in the wide world, would give to all products alike a greater market than would otherwise be possible, and so would permit of everything everywhere being produced at less cost. On the other hand, Protection, by raising tariff barriers between nations, has precisely the same effect as if the natural productions of a country had to be carried at some part of their course over hills or mountains on pack-saddles, instead of sailing or running smoothly along in ships or by rail; and so by *raising* the cost in human labour of all products alike, would reduce the aggregate possible wealth of the world as a whole. From all of which it is clear that a universal Free Trade, under *ideal* conditions for its exercise, would most greatly increase the wealth of the world as a single economic unity or whole.

But now let us turn to the other side of the shield, and see what the effect of a universal Free Trade would be on any particular nation,—when that nation is resolved at all costs to maintain its political unity, dignity, and independence, and to increase by every means in its power the wealth and material prosperity which is necessary to support it. We shall find

that it will be the same as its operation on any given division of a particular nation—as we saw in the case of the United States of America: and that the same freedom of trade which brings to your door from all parts of the world the precise products which your means or your tastes will permit you to enjoy, at the smallest possible cost, will bring also with it, and with equal facility, the goods of your foreign rivals in the same line of business as your own; and that unless your nation from its geographical position or its natural productivity and skill, can maintain a supremacy over all its rivals, it may lose as much by Free Trade on the side of Production, through foreign competition, as it will gain by it on the side of Consumption through the cheapness of those complementary products which it does not itself produce. And when once the world of nations is able to successfully conquer your industries in your own homes,—one nation in this product and another in that, and another in yet another,—there is no more guarantee in commerce than in war that your nation may not in a decade be degraded from the rank of a first to that of a third-rate industrial power. And the more complete is the freedom of trade between all nations, and the more perfect the ramifications of transport-service everywhere, the more rapidly will wealth, capital, and population be driven from one geographical area to another,—according to convenience of situation, natural resources, or the relative power of the combatants to supply at the cheapest cost those products for which there is the most world-wide demand. In a universal régime of Free Trade there is no way of keeping the wealth, capital, or population, fixed and steady on any given area of soil, and in any particular nation, or of preventing them moving away to more favoured regions or nations; the economic destinies of all, on the contrary, being as fated as if 'written on the iron leaf.' And the whole industrial history of the world gives it proof. For from the moment that the route around the Cape was discovered, and the ships of all nations

were equally allowed to sail it, the fate of Venice and the other Italian Republics of the Middle Ages was sealed; and although their decline might linger, their end was inevitable. Again, from the moment that the corn of Western America, Russia, and the Argentine, was from better transport facilities brought to our doors, English agriculture, under the régime of Free Trade, received its death blow: and had Adam Smith been alive, it must have destroyed his belief in that system of Free Trade which, as we have seen, following the Physiocrats of France, he founded originally on the supremacy of Agriculture as a wealth-producing asset for all nations alike,—and founded on that supremacy alone. And we may go farther and say, that when the time is at length ripe for the giant Trusts of the world, concentrated in fewer and fewer hands, to make a concerted attack on our manufactures, whether by 'dumping' and other devices, or by the legitimate underselling which production on a gigantic scale will make possible,—as it has already made it possible for them to extinguish their trade rivals in their own countries;—and when they are aided and abetted in this by the cotton 'corners,' the Metal and Food Produce corners of the world (and for this a dozen or two of the greatest multi-millionaires have only to lay their heads together to shake the markets of the world to their centres), what defence would the Free Trade of any nation make which could avail against them? Indeed, had Adam Smith lived to-day, still believing, as he did, that Agriculture was practically safe from attack by foreign rivals under a régime of Free Trade,—on the ground, as we have seen, that as corn and cattle could be practically produced and reared at about the same cost in every agricultural country, the expense of transport made their successful competition a practical impossibility except in times of scarcity or famine,—what would he have said when he found that not only these great staples of Agriculture,—its corn and cattle,—were undersold in the home market, but that even the humble breakfast egg, the most

uncertain and perishable of all commodities, could be brought from nearly every European country to the markets of his own country, and through the cumulative effects of some petty differences in cost of transport, could so over-ride all considerations of time, distance, and productiveness (his three sheet anchors of defence) as to drive out the home egg as effectually as the brown rat has driven out the black one? Would he not then have known and realized for the first time, that when once the transport between nations is so perfected that time and distance have become practically annihilated in the bill of costs, Free Trade brings to the door of every home not only the peaceful foreign trader who will supply you at the cheapest rate with the commodities you wish to possess but which you do not yourself produce, but will bring also to your door by the same boat the foreign commercial traveller with his battle-axe and his mailed fist, who, unless you are the stronger, will proceed to batter down the walls of your factories and workshops, and cut off the wages that support your hearths and homes? And it will be done so naïvely, so unsuspectingly, and so cunningly, that your throat will have been 'cut with an oiled feather' before you are aware of it. For the same foreign trader whom you welcome to your door as a friend, bringing blessings with him in the shape of cheapness, will when his cowl is thrown back, be seen to be an enemy in disguise; and the illusion which makes the trick so successful is, that each foreign trader is a friend to you, but an enemy to your next door neighbour, while your neighbour's friend in turn is an enemy to you;—the foreign shoe manufacturer not selling his shoes to the shoemaker, but to the tailor, and *vice versâ*;—with the result that all the successful foreigners are at once enemies and friends; enemies, as rivals who will kill you by their competition, friends, in so far as they will give you what you want at the least expense. In other words, *for the sake of cheapness* you will be found to have embraced not a friend, but a rival who has come to take away your means of living. And so, just as the separate individuals

who make up the crowd in a theatre will, on a cry of fire, by the common impulse to escape, each at the least risk and expense to himself, ruin all alike by all being blocked in the gangways and exits; or as in a crowded public place they may be trampled to death by the simple expedient of throwing a number of cheap coins among them; so the individuals that make up a nation, by their anxiety to secure for themselves as consumers everything that comes to their door, indifferent as to whether it comes from home or abroad, so long only as they can get it at a trifle less cost, can under a régime of Free Trade endanger, paralyze, or bring to an absolute standstill the mills, the factories, and the workshops of the nation as a whole; as much so, indeed, as if they had sold themselves to the enemy in war. Under Protection, on the contrary, the home trade at least can always be preserved up to the full extent of the country's resources, natural and acquired; and need not, unless you so will it, be floated away on this heartless, fated, and in the end—by the dislocation and instability it involves in families and homes—inhuman stream.

And this brings us to the very core of our subject, namely as to whether there is any criterion which will enable us to determine whether under Free Trade a nation is more advantaged in its character as consumer, by the foreigner in his character of friendly dispenser of cheap goods, than it is injured by him in its character as producer, when he comes as a rival to take away its land, factories, workshops, and tools, by closing them down or throwing them out of cultivation and use; in other words, whether there is any principle which will enable us to determine beforehand whether the balance is likely to be on the side of the nation or not? Adam Smith, as we know, decided that the balance would be sure to be on the side of the nation—because of what? Because we could always be sure under Free Trade of keeping in our hands the greatest of all the instruments of production, namely the land; and the reason he thought the agriculture of the country was safe

against the attacks of foreign rivals was, as we have seen, because of distance and cost of transport. As for manufactures, they too he thought were safe under Free Trade against the attacks of the foreigner for the same reason; except, perhaps, the silk industry which could not hold its own, he admitted, without protection, against that of France. But then, what did it matter? If beaten in one manufacture we could *always*, he said, transfer our capital to another in which no danger was to be feared: the consumer, at any rate, would gain what the particular producer lost, and so on the whole the balance would be in our favour. But how stands the case to-day? The land as an instrument of production has been lost to us through the successful invasion of our agriculture by the foreigner; and so long as the competition lasts, the powers of Nature locked up in the soil,—with the land going out of culture at the rate it has been doing for the last decade or two,—will be lost as a national asset. And if the time should ever come when England can no longer maintain her supremacy in a free market in manufactures either, the powers of Nature locked up in them,—which since the days of steam, are a free gift of ten times the economic value, as a wealth-producing asset, of those in agriculture,—would be lost to us also. And the consequence would be that while the free trade lasted you would have the spectacle on the one side, of a nation with its hands tied behind its back, as it were, through having parted with the tools with which it works—its soil, its mills, its factories, and its workshops,—and standing there a helpless mass of mere consumers 'eating their heads off;' while on the other, your foreign rivals, having captured your tools, (the instruments of production, through which alone wealth can be increased), will stand over you like masters over their helpless slaves, or the great Trusts over the small business men whom they are about to crush, and by the shadow of their sword of competition suspended over you, will prevent you from producing until you consent to do so on their own terms:—and

these are, that you shall give up your instruments of production unconditionally to them, as you would your swords in war. And so, for the time being, and while your Free Trade lasts, having parted with your instruments of production to the foreigner, you have become a nation of consumers only—mere dead receptacles, pensioners and parasites,—and although, like barnacles, you may once have had the free use of your powers and faculties, you have now become mere sacs, the appendages of foreign nations. And with result, what? This, namely, that your foreign competitors, having got hold of all the trump cards in the pack, now have you at their mercy, and can squeeze you in every business deal, wriggle as you may. But trade, it will be objected, does not immediately cease between nations when one of these nations has virtually been vanquished in its supremacy by foreign competition. Quite true, and we may go further and say that it never really ceases at all. What happens is that the nation having lost the use of its instruments of production, will continue paralyzed so long as the Free Trade last, in the same way as in matters of credit it would, if the Bank of England were to suspend payment; and the great centres of trade, wealth, and population, will be shifted to those nations whose superior natural resources, instruments, and powers of Production were the causes of its original defeat. Nor would this matter so much, did the nations of the world form a *political* unity, like the separate States of the American Union; but so long as each nation wishes to maintain its political integrity and the dignity and consideration which wealth and economic power give it, it is another question. For what will happen when once a nation is virtually defeated by foreign competitors, and while Free Trade continues, will be, that having lost its sword when it lost the use of its instruments of production, it will still have to live and be fed and clothed *somehow*, and on the products too of those very instruments of which it has been deprived; only now it will have to draw on its *past* savings, foreign

securities, and other collaterals, to pay its way. But although ships with their cargoes will still come and go from its ports and harbours as before, bearing their imports and exports with them, still, like the to-and-fro movements of the piston of a locomotive which go on for some time after the last shovel of the coals which stoke it has been thrown in, this trade between a nation and its successful rivals, although it may go on for some time with apparently undiminished speed, must become less and less, slower and slower, as one after another of its savings and foreign securities are handed over, until in its larger operations it ceases altogether. And then is seen the spectacle, so strange and paradoxical to the Free Trader, with his dream that what is best for the wealth of the world as a single political and economic unity and whole, is necessarily best also for each of its nations as parts, and which is the veriest commonplace of History;—the spectacle, namely, of a nation as completely, if not as suddenly, ruined by Free Trade, while all the time *the wealth of the world as a whole* is increasing by that trade, as would be the Transvaal of to-day if its gold and diamond mines were exhausted; the spectacle, in short, of wealth, capital, agriculture, manufactures, and population, silently stealing away from one nation and area of the globe to another, while all the time the wealth, capital, agriculture, manufactures, and population of the world as a whole were as steadily and silently increasing.

Such is the *modus operandi* of the economic rise and fall of nations, or the separate divisions of single nations, under a régime of Free Trade. I have imagined an extreme case for the purpose of bringing out more sharply the central operative factors on which the issue turns; to make it fit the case of any actual nation, the relative strengths of the different factors will have to be considered and allowed for at different stages of its development,—whether at the period of its supremacy or of the successive stages of its rise or decline. With these well in hand, we shall then be in a position to consider, in

the language of the physicians, the questions affecting its diagnosis, prognosis, and treatment; with this proviso always understood, namely that in nations,—so long as they exist as distinct *political and social units*,—considerations of self-preservation, national honour, dignity, and self-respect, must always, as in individuals, take precedence over purely economic ends alone; or, as Adam Smith has it, in his political support of the Navigation Acts,—'defence is more important to nations than opulence.'

CHAPTER VI.

FREE TRADE AND PROTECTION.

FOR the diagnosis, then, of the economic condition of any particular nation, the following are the points that must be elicited.

1. To what extent have the powers of Nature, gratuitously given to man, in any one or more of the great industries —whether of Agriculture, Mines, Manufactures, Shipping, or what not,—been transferred to the foreigner through stress of competition?

2. To what extent has the loss in one department been compensated by the supremacy which the nation still retains in the others?

3. To what extent do these latter still enjoy a supremacy in the world-market in spite of competition; and what proportion of them can only keep their supremacy either in the home market or in some of the more outlying and less industrially developed regions?

4. Is the existing supremacy, whether at home or abroad, one in the production of luxuries for the few,—as wine, tobacco, fruit, and precious stones,—depending on special peculiarities of soil or climate which are inherent and inalienable, and so not transferable to other nations; or is it a supremacy in the production of necessities of universal demand,—as food, clothing, and household materials and utensils,—which can be produced

in many different countries, but where the prizes will go to the nation that can deliver them at least cost, whether from natural fertility, easy accessibility, facilities of transport, the skill and invention of the organizers and workers, or, as is most usual, from that particular combination of all these qualities which is best adapted to the purpose?

5. Given that the supremacy depends on a happy combination of the materials and qualities best adapted to the production of articles of necessity in world-wide demand,—as in the case of England, of coal, manufactured cotton, wool, iron and steel, machinery, etc.,—does the combination which gives the supremacy rest, when analyzed, on a supremacy in the home supply of raw materials,—on home coal and iron, home cotton, home wool, etc.,—or is it the superior organization and skill, hereditary or acquired, of the masters and workmen which have turned the scale in the balance of supremacy? For if the raw material, either wholly or in part, has to be imported from other lands, as in the case of cotton in England; or if the supremacy rests on the special products of the East and West, such as those by which Venice and Spain and Holland rose to supremacy; or if the home supply, although fairly rich, can be confronted by a competitor with still richer natural resources: then, like a pyramid on its apex, the supremacy is unstable and in time must topple; for in a régime of absolute Free Trade, a rich natural resource is as useless when confronted in the same market by a richer, as if it did not exist at all; provided always the question is not one of definite *grades* of the same general article which have select and definite classes of customers;—with this exception, it may be laid down in general terms, that no manufacturing skill can avail a nation in the long run if the raw material on which it operates has to be imported from abroad, and especially when once the nations in possession of this material have reached the stage of all-round industrial development when they can work it up for themselves. For manufacturing skill, invention, organization, etc., where

the stakes are great enough and the end justifies it, can be transferred in batches from one country to another at any time, if the wages or salaries are made sufficiently tempting.

6. And this leads to the further question as to whether the nation under discussion is a young nation industrially immature and undeveloped, but with the richest natural resources in its soil and mines, with the best natural facilities for transport in its geographical situation, with an absence of natural barriers, and with an abundance of natural water-ways communicating within its own territory with the sea—and so demanding some form of protection during its youth or immaturity; or whether, on the other hand, it is an old nation, industrially speaking, fighting on great but declining natural resources; and especially whether it is handicapped and hampered by political, religious, and social institutions unfavourable to a purely industrial supremacy, but which from age, and national tradition have become fixed, immovable, and irreversible. In a word, whether it is a nation or people like America and the Colonies with the richest natural resources of all kinds still partially or,—in the case of the greater Colonies,—almost entirely, undeveloped, and with their citizens still unhampered by any untoward conditions, political, religious, or social, possessed of the greatest natural abilities for industrial employments, and with the most eager desire for industrial supremacy; or whether, like Turkey and other Eastern countries, the richest natural resources are prevented from bearing fruit by political tyranny and extortion. Or, turning to the religious side;—whether it is hampered, as in Mahommedan nations, by a creed which practically proscribes scientific knowledge, either pure or in its application to the industrial arts; or on the social side, again, like Spain, who stands immovably on the dreams of her past dignity and greatness, on her feudal pride, and contempt for the modern industrial spirit; or like England, who while enjoying an unrivalled industrial supremacy sustained on the twin pillars of commerce and war, still by her peculiar, and (for

a great nation) unexampled disregard of knowledge as such, and by the want of honour accorded to scientific pursuits of all kinds and in every department, as well as by her equally peculiar devotion to certain kinds of occupation and sport, keeps herself industrially old and rigid and slow, and so by the restraints imposed on the industrial equipment of the most energetic spirits in their prime, handicaps herself in competition with her younger rivals;—thus teaching us that Political Economy can never be divorced as a mere specialism from the larger outlooks of Civilization in general.

7. And lastly, we have to ask to what extent the protective tariffs imposed by nations as defences against each other, are calculated to forward or handicap ultimately any particular nation which, like England, stands fast by Free Trade, and keeps her banner flying in her contest with her rivals for the neutral markets of the world?

The above questions having elicited the main facts in the history of the particular case for which the Statesman is called on to prescribe, we have now to consider the still more important problem of the general principle with which we are to approach the subject, and the general rules for its treatment. As for our method of approach, then, we must discard the principle of the old physicians of fifty years ago, who with their bleeding and calomel went on the idea that what was good in a general way for all, must be, in the same general way, to the advantage of each in particular; and on the contrary consider it as proved and established that what is best economically for the world conceived as a single economic unity or whole, is *not* necessarily the best for each particular nation in it. And we must further insist that the problem of Political Economy is not how the wealth of the world as a whole is to be best increased, but how the wealth of a particular nation in trade relations with other *politically* independent nations, is to be best increased—quite a different problem. And if these premises are granted (and unless they are, indeed, the problem

is solved, and the economic Statesman, like the quack doctor with his single pill or prescription, has only to go blindly and unflinchingly straight ahead with his Free Trade), it follows that the business concerns of nations must be handled precisely like the business concerns of individual traders in competition with others in the same nation. And if this, too, be granted, we may perhaps be allowed to summarise a few of the main principles of treatment as follows :—

1. Always to keep in your own hands as a nation all the *instruments of production* you possibly can, as each of these, be it remembered, whether it be a piece of land or a steam engine, gives its immense wealth-producing services as a *free gift* over and above the expense of cultivating it, making it, or keeping it in repair; and never to let considerations of mere *cheapness* seduce you from this fixed rule, except in the case of those *complementary* products, as we have called them, which your own country has neither the climate, the soil, the natural resources, nor the skill, for producing with any measure of success; otherwise, like a red Indian who should sell his only rifle to his enemy for a bottle of rum, or like a foolish workman who for the sake of a slightly cheaper dinner each day should be induced to part with his tools one by one until they were all gone, you would find to your chagrin that you had sold your birthright for a mess of pottage. And in laying down this important principle I am not without precedent, for Adam Smith himself, as we may remember, when he preached Free Trade for all nations, did so avowedly on the ground that (in his time) it could be done not only with impunity but with advantage to all concerned, and without sacrificing a single one of the great instruments of production, whether of the land or of manufactures,—excepting only the silk manufactures.

2. Never to forget that in order to work these powers of Nature—imprisoned in the soil, in machinery, and chemical processes—to their fullest capacity and at the lowest cost, the *extent of the market* you can command for them is the one

supremely important consideration. And to get this market, it is necessary that you should so mass, concentrate, and combine all these instruments of production by every political or economic device in your power, as,—like Napoleon in war, or the great combinations and Trusts of the present day,—to be able to bring a greater economic force (in the shape of cheapness) to bear on each point of attack, than your rivals can command; and so, on the political principle of 'divide et impera,' defeat them one after another in detail. And indeed until the nations insist that their ethics of trade shall be on a level with their religious ethics, this is both necessary and inevitable; for to imagine that any individual trader is likely to offer himself up as a sacrifice to this (at best) ethically low ideal of mere money-getting, and for reward get kicked into the gutter of poverty for his pains, while the nation itself, which alone can and ought to remedy it, goes smiling by, is and ought to be a dream.

3. But as those more complex products of manufactures which are likely to win for themselves in open competition a world-market, are often made up of many auxiliary and subordinate processes or parts, whose materials,—raw or half manufactured,—have to be drawn from collateral subordinate trades, and often from distant countries, it is necessary that as many of these trades as can be acquired by a nation should when once acquired be held as tenaciously as territories conquered in war, and not be lightly bartered away for mere cheapness,—whether through foreign 'dumping' on its shores or otherwise,—but only under the sternest necessity; so that if the nation is forced to let one or other of them go *for the sake of mere cheapness*, to let it be done frankly as a sacrifice,—and not, as the Free Traders so often regard it, as an occasion for jubilation.

4. In all cases where the extent of a nation's market abroad is blocked by hostile tariffs, the principle of a *quid pro quo* should be rigorously applied by means of 'commercial

treaties' special to each one: the world of foreign nations being pitted against each other like rival bidders in an auction room, so that when for any reason an industrial instrument, whether of soil or manufactures, has to be parted with, it may be knocked down to the highest bidder. In a word, now that we see that the Free Trade doctrine—that what is economically best for the world as a whole is necessarily in the long run the best for each particular nation,—is a fatal delusion and confusion of thought, we have no better general prescription to offer to nations who have trade relations with other nations than to follow the most accepted and best accredited maxims and methods of individuals in their business relations with one another. In doing so a nation will be, I believe, as nearly right as the nature of things will at present permit it to be.

5. But should the reader still have any doubt of the supreme importance of our trade maxim of never parting with an instrument of production,—whether of land, mine, or manufacture,—to the foreigner, for the sake of mere cheapness to the home consumer, except under compulsion; and that when forced to do so, it should be some subordinate instrument of limited or local efficiency, for which something not only as good or better, but also as *permanent*, has been received in return; while the *supreme* instruments of production of a country must not be parted with at any price;—if the reader still doubts this, I may venture to present him with a fresh argument founded on and following from one of the most cherished maxims of the Free Traders themselves,—a maxim which guides the practice and inspires the teaching of all statesmen, economists, and publicists alike, whether they be Free Traders or Protectionists. It is a maxim of Taxation, when that taxation is levied not for purposes of Protection, but for the ordinary and necessary revenue of the State, and it is this:—Never to lay a tax where there is any chance of its falling directly or ultimately on an instrument of Production, or on capital that is invested, or likely to be invested, in

such instruments,—whether on land, mines, machinery, tools or horses and carts, buildings, fruit trees, or what not, when used for productive purposes; for it was that and that alone which owing to the short-sighted greed and extortion of their despotic rulers brought the countries under Turkish and Oriental rule,—many of them so rich in natural resources,—to the poverty in which they are sunk at the present day. Great men's heads might have been periodically cut off like tulip tops by the score, and yet the country might flourish exceedingly; but by striking at the instruments of production themselves through taxation, you strike at the very heart of a nation's economic prosperity. It was this that precipitated the downfall of the Roman Empire in the West. The Emperors in their greed absolved the large landowners, who were mostly senators, from taxation, and laid it on the small proprietors,—the twenty or thirty acre men,—who everywhere surrounded the towns and villages in Italy, Gaul, and Spain; making them responsible not only for their own share, but for that of all the defaulters as well. And the consequence was that as the list of defaulters increased, these taxes became at last so formidable, that in spite of all efforts of the Government to prevent it, the small landowners threw up their lands altogether, and entered the ranks of the *coloni* and slaves. And the same principle is found also to work in the political sphere. When the French revolutionaries determined to break the power of the Feudal Nobility, they took from the great landlords at a stroke their legal titles to the soil, and dividing it up into small holdings, transferred the ownership to the millions of petty proprietors whose successors own it to-day. The expedient was a success; and the power of Feudalism was once and for ever broken in France. But Cromwell, who was as much resolved to break the power of Royalty in England as the revolutionaries were to break the power of the Feudal Nobility in France, proceeded by a different method,—and failed. Instead of dividing the lands of

the feudal nobility who supported Charles, among his own republican adherents, he imagined he could get the same result by taxing the landlords, and quartering his soldiers on them. Now had he broken up the lands instead, as in France, and sold them to the small farmers among his own adherents, he would have taken away from the landlords their instruments of production, and would have attained his end of entirely breaking their power; but being permitted to keep the title-deeds of their estates, no amount of taxation, however long continued, could avail to lower their power; for taxes fell only on their rent-rolls, and as these were spent for the most part unproductively in luxurious consumption if not in more obnoxious forms of extravagance or dissipation, not only did the real wealth of the country remain practically untouched,—inasmuch as the farmers had sufficient capital to till the land, and so this natural asset was left as an instrument of production unimpaired—but even if the landlords had been personally starved in the meantime, their political influence over their tenants, so long as the relation of landlord and tenant lasted, would have continued; and their heirs, on any fresh shuffle of the political cards, could enter into their heritage again with undiminished confidence and hope. The truth is, that Cromwell by leaving the landlords in possession of their instruments of production had, like Macbeth, scotched his snake but not killed it, and its brood remained; and after his death, as we know, a new wave of sentiment, backed by the substance of power which he had really left to the landlords, brought back the old régime of Royalty, Feudalism, and landlord domination, as before. Now Cromwell ought to have seen this, and foreseen its issue, but it so happened that his own following included almost as many landlords as that of the Royalists. For it must not be forgotten that in those days Puritanism had split the Nobility, as well as the Church, into two hostile sections; and it was only during and after the reign of Charles II. that the Nobility closed their ranks again, and ranged themselves almost to a man on the

side of Church and King,—leaving Puritanism and Dissent practically to the mass of the people, in whose keeping it has remained to the present day. It is probable, therefore, that even had he seen the futility of taxing the incomes of the landlords while leaving the land itself,—the chief national instrument of production,—intact in their hands, he would have felt himself impotent to proceed further: and as he was neither a leveller, like one wing of his followers, nor could afford to alienate the landlords who formed the other wing, he left the issue, as he was wont to do, to that Providence in whose hands all causes alike were over-ruled for higher ends. Now, I have introduced this matter here merely as a historical illustration of how immensely the fortunes of a nation are affected politically as well as economically by the question of whether you do or do not tax its instruments of production. And hence, as we have said, the experience of the world has made it a maxim with statesmen and economists,—whether they be Free Traders or Protectionists,—never to lay a tax on an instrument of production except as a last necessity of State, but always to lay it on articles of consumption,—luxuries as first choice, but when these prove insufficient, then on necessities, —and further that when a tax has to be laid on *incomes*, to let it be laid on that part of them alone which in the ordinary way of life would be spent on luxuries or unproductive consumption generally, and not, if possible, on any part of them which in the usual course of business is likely to be used in extending or enlarging those instruments of production,—whether soil, mines, machinery, or chemical processes,—which are either waiting for capital to open up and develop them, or which will yield an increase great in proportion to the amount of capital that may be still further invested in them. Or, to sum it up; —the laying of a tax on an instrument of production not only cuts at the roots of the material prosperity of a nation, but indirectly makes it all the more easy for the foreign industrial rivals to invade it by their competition; to lay it on articles of

consumption, on the contrary, is a comparatively unimportant matter, not only for the permanent wealth of the nation as a whole, but also in the interests of the genuine working classes who co-operate with capital in working these instruments of production. It can only be detrimental to the interests of the idle or incompetent classes of the community, whether of the drawing room or of the slums: for strictly speaking, these are not *on* the wheel of wealth at all, but have fallen off it, as it were, and lie around its base as a pure tax on its products, having to be kept either as pensioners or paupers from its superfluity or bounty. But the ultimate reason which lies behind all particular arguments is, that a nation's instruments of production are its *permanent* possession, while the mere amount of its consumption is but a passing necessity; precisely in the same way as a man's brains and hands are during his working manhood his permanent possession, while the particular emotions and alternations of mood which pass across his mind from day to day,—although they are the very stuff of which his life is made,—are shed like falling leaves, which can be reproduced, whilst the tree abides. And so too with the more or less of food he requires from day to day, which can be reproduced so long as the strength of his arm and hand lasts; but with these instruments of production paralyzed,—how then will a man help himself at all? How feed his powers of consumption with *any* kind of food,—unless he consents to accept it as an act of commiseration or charity?

And now, if I may venture to draw these lines of argument and illustration to a point, I think we shall be fully justified in saying;—that killing a nation's instruments of production by competition and underselling in a free and open market, has precisely the same effect, as far as its influence on the national wealth is concerned, as killing them by taxation; the only difference being in the time it takes to do it in each case respectively;—taxing these instruments having usually the more immediate and direct effect, as well as being the more

hopeless and demoralising; while killing them by foreign competition is usually more slow and circuitous in its operation, owing to the number of collateral shifts and expedients to which in its efforts to escape, a free people accustomed to act on its own initiative can turn in its extremity before it succumbs. And further, we may say that the Free Trader's extreme solicitude not to kill an instrument of production by taxation, reduces to a self-stultification, contradiction, and absurdity, his extreme readiness and even eagerness to kill any one of them as quickly as he can (for the sake too of the most trifling difference in cheapness in what the nation consumes) by calling aloud on all the world freely to enter in and do it if possible by any kind of competition, legitimate or illegitimate—whether by the trick of 'dumping,' of 'cornering,' or of concentrating the attack on individual traders until you ruin each in turn by under-selling them,—all of which methods the Free Trader by his principles is equally prepared to allow. And why, or for what? For a series of abstract propositions and so-called laws of Political Economy, not one of which, as we have seen, has the slightest validity. For they are not, be it observed, like, say, the law of gravitation, which envisages in a single formula and rounds in by a single generalisation a range of concrete facts to all of which it gives that absolute scientific predicability on which men can walk with certainty, but are of that order to which, as we have seen, the abstractions of the perpetual-motion schemer and the Achilles-and-tortoise logician belong. Now in saying this, I am neither attempting to be satirical nor merely metaphorical; but, as we shall presently see, am simply giving expression to a literal scientific fact. We have already seen it illustrated in the views of Adam Smith on the Colonial trade of his time; and the modern Free Traders, although transported into an entirely different atmosphere and environment from that of Adam Smith, still carry with them to the solution of the problems of to-day the same abstractions and illusions. And nowhere is this better seen than in their

two great lines of argument, the one bearing on the relations between exports and imports; the other, on the functions of gold, and the mechanism of the Foreign Exchanges, in the trade between nations. It is not so much their formal logic that is at fault—on the contrary all their positions hang together by a kind of natural affiliation—it is rather to what they leave out of their calculations that their errors are due; just as the fallacies of the perpetual motion schemer lay not in his formal logic, but in leaving out of his calculation the element of friction. Indeed, in all the arguments which the Free Traders advance in support of their doctrine, both in what they ignore and on what they lay stress, it is always the *same* element that is left out; and hence, as we shall now see, their illusions are not merely analogous to those of the perpetual-motion schemer, but, when regard is had to the different nature of their subject-matter, practically identical with them. But to see this clearly, it is necessary first of all to separate the different varieties of argument employed, before we can generalise them as modes of some single error common to them all.

Now as the subject-matter of the problem of Free Trade or Protection concerns entirely *the exports and imports of nations in trade relations with one another*, the first thing we have to notice is, that the Free Traders always ignore the various *motor powers* which keep this inter-trade a-going, and fix their eyes exclusively on the mere *to-and-fro of the interplay itself*;—as if in looking at a locomotive in motion, they should keep their eyes fixed on the to-and-fro movements of the piston, without considering whether the coal with which it is stoked is running low or not; or as if a man looking at a clock should watch only the backward and forward movement of the pendulum, without thinking of whether it would soon require winding up or not. In other words, the Free Traders always ignore *the relative strengths of the instruments of production* of the particular trading nations whose out-flow and in-flow of exports and imports they are called upon to consider, and

concentrate their attention only on the *interplay* of their gross products; and if they find on calculation that these exports and imports *combined* keep up to the average in their gross amount, or even go on increasing, then, like the man who keeps his eye on the piston, and forgets about the coal, or the perpetual-motion schemer who finds after a few inspections that his machine is still going about as usual, they generalise their impressions, and announce as a dogma that this inter-trade must go on—for ever! Now that I am not doing the Free Traders any injustice in accusing them of this initial and fatal absurdity, will be seen in every one of the considerations which I am now about to place before the reader.

To begin with, it is seen in every turn of the arguments they use in their most familiar conversation, and in none more than in that unfortunate phrase of Sir Robert Peel's which they pass over to you quite unsuspiciously, as if it were indeed a genuine coin they were offering you,—instead of being one of the rankest and most unblushing of counterfeits;—'Take care of your imports, and your exports will take care of themselves.' Indeed had I no other argument at my back, I should be prepared to stake the whole future of Free Trade or Protection as a *principle* of commerce on the implications of this single phrase; for in it, as in the primal sin of Adam, all the other fallacies of the presentation of the Free Traders in their multiplex forms and ever deepening absurdities, down to the perpetual motion scheme itself which is involved in their academic argument on the Foreign Exchanges, are virtually contained. By what hocus-pocus in being passed from hand to hand so unblushing a counterfeit could ever have obtained currency in a great nation, unless indeed, like the 'Emperor's clothes' in the fairy tale, it were by hypnotic suggestion alone, passes all comprehension. For consider it;—Here are the oceans of the world covered with ships of merchandise passing and repassing each other everywhere, but instead of going equally to *all* lands and continents indifferently, they are seen

concentrating themselves both in number and character, and in a graduated hierarchy, which varies little from year to year but markedly from decade to decade, in certain favoured regions—chiefly around the ports of England; in lesser number around the ports of the Continental nations, the Colonies, and the countries of the East: fewer still around Norway and Denmark: still fewer around the harbours of Spain and Portugal, Italy, Asia Minor, and the North of Africa (all of them, be it remembered, once so crowded): until we reach Labrador, Greenland, Patagonia, and other regions which, although lying little further afield than some of the most crowded, are yet passed by with only an occasional visit to their shores, or with none at all. And when we ask what is the cause of these strange preferences and aversions by which one shore is crowded with suitors, another accorded only a nodding or friendly acquaintance, and others shunned and avoided altogether, the natural answer is, because the first, England, is rich in natural resources,—in mines, cornfields, manufactures, transport facilities, railways, canals, horses and waggons, shipping, etc., and in skilled workmen and labourers—which under the general term *instruments of production*, or fixed capital, constitute as we have seen her abiding income and source of wealth; and it is the sale of the products of these instruments to foreign nations, or in other words the sale of her *exports*, that is the *cause* both of the number of ships that are continually leaving her shores carrying them to the places at which they have to be delivered, and of the ships that are bringing back goods from these foreign countries in payment of them. And further, it is because the instruments of production of the other nations I have mentioned,—or that part of them which is devoted to foreign commerce,—are of less and less value compared with those of England, that the imports which come to them are less and less in amount than those that come to England; until with countries like Labrador or Greenland there are few or none at all. In other words, *it is the*

exports of a country that are the cause of its imports at any and every point of time, and not the imports that are the cause of the exports; or to put it differently, the industrial strength of a nation depends on its exports, not on its imports; and when you have to handle it practically, it must always be approached from the side of its exports, never from the side of its imports; in the same way as the strength of Shakespeare's brain was the *cause* of whatever remuneration came to him from the sale of his dramas, and not the remuneration the cause of the strength of his brain; or again, as it is the strength of the stag that is the cause of the herd going over to him, in a body, not the herd going over to him that is the cause of his strength. One is ashamed to have to labour so palpable a truism, and it is largely owing to the persistency with which the Free Traders not so much argue as assume the opposite, but especially, as we shall see, to the *indifference* as to which is cause and which is effect which they habitually betray (as if it did not matter either way), that we are obliged to ask the reader to consider this matter once and for all at the very outset of our argument. If, then, we are right in our contention that the industrial powers of a nation—its instruments of production, or fixed capital of all kinds—are not only the sole cause of the wealth which that nation can *permanently* command, but the only asset over which it can have any control, precisely as in the case of a private estate; and if we are further right in identifying these instruments of production of the nation in question with its *exports*; what shall we say of this economic maxim of Sir Robert Peel's, poured over us with so much sacramental unction from every Free Trade platform, of "taking care of your imports and your exports will take care of themselves," when you can neither take care of that which does not belong to you, nor leave the only things over which you have any control,—namely your *exports*,—to take care of themselves; what can we say of this broken reed of economic scripture, but that it is an excellent specimen

of the kind of thing which passed current for political wisdom fifty years ago, and which, with 'the big and little loaf,' is still as magical as ever for driving the political sheep into the fold? But worse remains. For the Free Traders having fallen headlong into this primary intellectual error in industrial diagnosis, viz., of keeping their finger only on the to-and-fro movement of the pulse of exports and imports and the mere surface play of their external symptoms, instead of definitely ascertaining the state of the organ which is the *cause* of these symptoms,—the nation's instruments of production as seen in the character, quality, and strength of the exports,—there is no intellectual atrocity to which by this they are not committed; until going farther and farther they end, as we shall see, in the actual perpetual motion of these exports and imports, and the perpetuity of the wealth of the nation,—*whatever befalls them!* The inner train of logic by which this is brought about will be seen presently, but in the mean time I appeal to the reader, and even to the Free Traders themselves, to say whether there is any proposition whatever in regard either to the amount, kind, quality, or source, of a nation's exports which they do not regard with indifference, provided you will grant them assent to two propositions only,—first, that the exports and imports must always *balance* each other, on the ground that whatever is sold or bought must be paid for, and secondly, that all is well if the exports and imports *combined* keep up to their average,—a truism, so far as the *past* and the *present* of a nation's industry are concerned, but clearly beside the point of the discussion, which, as the basis of a practical policy, must concern itself entirely with the *future*, excepting in so far as the signs or symptoms existing in the present and past which bear on that future are concerned. But by cutting off the question of exports and imports from its roots in their central cause,—namely, the instruments of production of the nation as represented in its exports alone,—and concentrating attention on the mere *interplay* of exports

and imports combined, as represented by their gross sum-total *in the present*, the Free Traders have not only thrown overboard all regard for, or attempt at, a true theory of Free Trade or Protection, but have shut themselves out from all possibility as practical politicians of a true diagnosis of any particular case, as well. For by their own act they have put themselves in precisely the position of the quack doctor who finding on enquiry that his patient looks about as well as usual, sleeps and eats as well, and is not conscious of any deterioration in physical vigour, will pronounce with confidence that there is nothing seriously the matter, even when the skilled physician has already detected definite signs, say, of consumption, cancer, or fatty degeneration; or of the insurance agent, who going by his client's *general* appearance should take all risks without a medical examination; and are as rightly to be condemned in consequence as would be the shipping company which should send a vessel on a distant voyage, freighted with merchandise and human lives, without regard to the amount of coal in its hold, and in extenuation of subsequent disaster should put up the frivolous plea that at any rate *when it started out*, the to-and-fro movements of the piston of its engine *balanced* each other, and the number and strength of the backward and forward strokes were up to the average! In other words, having on the strength of Sir Robert Peel's foolish phrase deliberately shut out from their purview all consideration of, or regard for, the real cause of the prosperous or declining trade of a nation, and pinned their faith instead to a chain of speculative abstractions compared with which, as we shall see, the mechanical abstractions of the old perpetual-motion schemers were (considering the knowledge of the time) but a pardonable infirmity, the Free Traders have not only thrown away their compass and rudder, but indifferent alike to the pole star above them, to the supply of coal for their voyage, and the quantity and quality of the cargo of their ship, drift about on the open sea on the mere chance that the

known periodicity of the tides, or the backward and forward swing of the waves, will keep them off the rocks.

Now, that I am doing the Free Traders no injustice in charging them with these absurdities,—and especially with their indifference to all other considerations whatever except the *equality* of the exports and imports of a country, and the *gross sum total* of the two combined,—will be seen by a simple enumeration of their opinions, with but a minimum of comment. And if we take England as our best object-lesson for the exhibition of the wide range of considerations to which the Free Traders are absolutely indifferent,—for it is mainly around the question of Free Trade or Protection for England that many of the most distinctive arguments bearing on the general principle of Free Trade cluster and focus themselves, —we shall find:

1. That it does not matter to them what industries may be injured, or altogether ruined and displaced under a Free Trade régime, inasmuch as there will *always be found others to replace them.* Now this curious doctrine which seems so strange and unnatural to the ordinary understanding, together with the academic doctrine with which it is backed up, and which seems equally strange and unnatural,—the doctrine, namely, that it is quite impossible for *all* the trades of a country to be ruined, whatever befalls,—and especially the obstinate persistency with which these doctrines are held in spite of all protest, I shall endeavour to explain later on; but as my explanation will consist in showing that they are only aspects of the perpetual-motion delusion which I shall attempt to show is involved in all the fundamental doctrines of Free Trade, I shall defer it for the moment to concentrate attention on the fact of the indifference itself, which the Free Traders have never denied, and which is one of their most frequent and favourable devices for avoiding criticism when they are being keenly and hotly pursued.

It is a matter of indifference to them, for example, whether

the trades that have been hit by foreign competition are the great staple trades of the country which are rooted in the rich natural resources of the island—its soil, its mines of coal and iron, its shipping and transport facilities and the hereditary skill of its workers—or whether they are the most local, casual, accidental, undistinguished, or recent. It matters not whether they are the trades which originally made the fortunes of the nation owing to the world-wide demand for the articles they supplied,—and the loss of which, one would naturally suppose, would spell ruin;—or whether they are trades that are mere parasites and aliens without roots of their own in the soil, but which still manage somehow to find for themselves a market, owing rather to the insignificance which enables them to insinuate themselves into the weak spots in the industrial armoury of other nations, than to any natural robustness of their own,—trades which unless protected by the existence of great indigenous industries on whose scraps and leavings they feed, would soon become extinct; resembling in this those cruisers which so long as they are protected by the big guns of their own ironclads, can by their speed in darting about here and there between the big ships of the enemy, do marvellous execution at a pinch, but which without such protection are of little value. Such trades, for example, are those which, like the making of clothes,—whether by 'sweating' or otherwise,—live and depend on a flourishing condition of the great textile industries; arms and ammunition, tools and machinery, telegraph wires, etc., which live on the great metal trades; jams and confectionery, living on sugars grown abroad, and at the mercy of foreign regulations; carriages, and railway outfits, books and book-binding, depending on the general increase of wealth and of population caused by the great industries, and still largely maintained by them;—and all alike, great and small, depending in turn for their cheap delivery abroad on the shipping industry as the centre and crown of the whole. It matters not a jot, I say, to the Free Trader whether the great

industries have been attacked by foreign competition, and are being slowly crippled or ruined, so long as they can be replaced by these parasites; and if not by these, then by other new and unknown ones:—for not only is it, as I have said, their obstinate conviction that there are *always* other trades everywhere to which they can turn to replace those that are lost, but it is their still more complacent belief that however many of them have gone, whether great or small, those that remain will somehow make good *all* that is lost:—and strangest of all (now that we know that the separate foreign nations who are attacking our trade form a ring surrounding our harbours, each not only fully equipped in all our great industries, but making a speciality of some one or other of them), that it is scientifically *impossible* that more than a few of them could be ruined by any individual superiority whatever of foreign trades over corresponding trades of our own, inasmuch as by the self-adjusting principle of perpetual motion which I will presently explain, the more of them that have run down, and the further each has run down, the more rapidly will the wheels of those that remain revolve; so that, like the Sibylline Books, the more that are lost, the more precious do those that remain become! Nor does it matter to the Free Trader by what method of attack our great trades are being supplanted or crippled;—whether it be by great combinations of capital making a dead set at us with their cannon balls, we replying without defences and in the open plain by mere individual competition and dispersed rifle bullets; whether we are injured by legitimate or illegitimate competition; whether by the 'dumping' practised by all the great foreign 'Trusts' or the legitimate cheapness of certain foreign products; whether by the 'cornering' of the raw material of the Cotton trade, which, hitherto a failure, may succeed in the end; or by a superiority in natural resources, as in the Iron and Steel trades of America; or by the greater scientific knowledge applied to Industry, as in chemical processes and scientific instruments, which gives

Germany her advantage; or by the finer artistic skill which, as a heritage of her people, gives France her universal supremacy in silks and muslins; and so on. Nor does it matter to the Free Trader what qualities and degrees of technical skill, requiring generations of workmen to bring to efficiency, are being displaced by foreign competition;—whether it is driven from engineering to bricklaying or navvying; from art to house or sign-painting; from architecture to stone-dyking or road-making; from banking to pawnbroking; from medicine to patent-pill manufacturing; from scientific chemical combinations to mixing mortar or whitewashing; from ship-building to ship unloading; from high class cotton or woollen goods to the stitching together of low-class ones in sweaters' dens;—nothing of all this gives the Free Trader the least concern, provided he can prove to you from the Board of Trade returns that the exports,—whatever may be the character or quality of the items of which they are composed,—have *up to the present* kept up to their average level in money value (and all the better, of course, if they are increasing in amount), and especially if the gross amount of imports and exports *combined* shows no signs of abating.

Nor, again, does it matter to them what proportion of the trade lost by foreign competition is made up of raw materials, what of half-manufactured goods, and what of finished articles, respectively;—whether it is the raw material and half finished manufactures which have been sacrificed—as coal, iron ore, corn, pig-iron, steel rails, tin-plates, hides, leather, yarns, or what not, all or most of which we can produce ourselves without much disparity in cost—so long as the manufacture of the finished products is left to us; or whether it is the finished products that are being sacrificed, so long as we still retain our raw materials and half manufactured goods as the basis of our export trade. Nothing of all this matters to them; and that, too, in spite of the fact that if you once,—for the sake of mere cheapness in manufacturing the finished product,—permit your

raw material and half finished goods to be permanently supplied to you from a far off base in the countries of your industrial competitors, it will only require a little time for them to lay their hands on your finished products and annex them also,—when once they have sufficient collateral support to be able to put forth their full strength,—and so leave you like an army which has its permanent base in an enemy's country. The loss of the finished product, on the other hand,—however much of raw materials and half manufactured goods you may still retain in your own hands as the basis of your export trade,—is the loss of that which alone enters the *homes* of men, and on which its trade-mark (as is seen in the preference by our Colonies for distinctively English goods as such) confers that potent wealth-producing asset, which under the generic title of 'good will' endows it practically with all the prerogatives of a monopoly.

So that the result of it all is this;—that on the one hand, no mere picking up of scraps of raw or half-manufactured materials here and there around the world, can ultimately in the face of foreign competition compensate for the weakness in the organic self-sufficingness of any great industry as a whole, when once the bulk of its great subsidiary processes and dependencies are no longer rooted in its own soil and mines and in the hereditary skill and knowledge of its workers; while when once these raw materials and half finished products have been slowly and silently stolen away by the foreigner, and the finished product itself is finally cut from its roots in its own soil, the whole great trade must wither like a tree, —finished product, subsidiary and auxiliary processes and all,—until only its old stump is left standing to mark where it once had been. But nothing of this ever touches the Free Trader, who continues to reiterate with irritating persistency that it does not matter, it is all right; for the cheapness of the picked up scraps of raw materials and half-manufactured goods, by cheapening the finished product, enables us, he contends, to

slip our goods magically in between the meshes of the tariff walls which keep out all but ourselves,—as well as giving us full entrance to the neutral unprotected markets (now alas! quickly waning in number) which are still open to us. And besides, we can always turn to something else. But when you press him hard to say precisely what it is to which we can turn, or have already turned, he will point quite naïvely and complacently to some of our old friends,—the haberdashery trade, the apparel and slop trade, the cheap East End clothing trade, the whisky trade, the glass and bottle trade, jam, pickles, confectionery, and what not,—parasites all, which never could have made the fortune of England, and in her extremity cannot prevent her from losing it again; or, more triumphantly, to our coal trade, and even unblushingly to our export of Welsh steam coal and china clay, which instead of being kept for our own use, and their sale to foreign nations restricted, by means of an export duty or otherwise, as jealously as if it were diamonds that were being dealt in rather than coal or clay, are through the break-neck haste of rival owners to get all they can out of them, practically given away to the foreigner, with no other result than to strengthen him in his competition with ourselves both in commerce and in war. How different is all this to the management of a private estate! And yet, I will challenge the Free Traders to produce any living reason which will support them in their practice of managing the resources of a nation on a different principle from that on which they would those of a private estate. As we have seen, they would submit to maceration rather than put a *tax* on any instrument of production, or piece of fixed capital: and yet it is no exaggeration to say that they will toss to the foreigner these very instruments of production, and these choicest pieces of fixed capital, with as light a heart as they would throw the stump ends of their cigars to street boys. We shall see the cause of this presently; but in the meantime they carry themselves with the easy indifference of men who feel that they have reason on their

side, and when pressed they point triumphantly to the Shipping trade as the high water-mark of the success of Free Trade itself.

Now as it was the Shipping Trade of England that originally made her fortunes, not only industrially but politically, I have no desire to minimise its significance as a weapon in the armoury of Free Trade. For I came to my views on Protection, if I may venture to refer to myself in this connection, purely as the results of my economic studies, conducted impartially and free from any tinge of either personal, political, or party bias; and where my reasons for the faith that is in me end, there does all claim of mine to have even an opinion on the subject end. Indeed all my predilections are in favour of Free Trade; I accepted it without question as the economic gospel of my youth; I see its economic superiority to Protection for the *world as a whole* when once the separate nations, like the separate States of the American Union, shall have become a single *political* unity; and I deprecate the very thought of the corruption, the shamelessness, the intriguing, and the low tone of political morality which the return to Protection must inevitably engender in public life;—especially in all countries where parliamentary government by Party is supreme, and where the votes which put in and turn out ministries, will no longer be given for political favours only (as they have been in England during its Free Trade régime), but will have to depend on economic favours as well—always more degrading personally to the recipient, as well as more damaging in their effects on the purity of public men. And hence I feel that this of the Shipping Trade claims a remark or two to itself.

The Shipping Trade, as I have said, made the fortunes of England originally, but it was rather the immediate than the ultimate cause,—the pioneer that engineered the way, rather than the solid phalanx that backed it up. In other words, although it was the means of introducing the manufactures of England to the world, it had afterwards to wait on the fortunes of these manufactures, and so must in the end participate in

their decline and fall as it did in their rise and supremacy. In thus rising to supremacy by her shipping trade, England so far resembled Venice and Holland. They, however, had neither a sufficient extent of territory, nor sufficient natural resources at their back, either in mines or manufactures, to give their shipping a base of its own on which it could always support itself in extremity; and the consequence was that the discovery of the Cape route,—as her own statesmen foresaw from the beginning,—speedily effected the ruin of Venice; while the manufactures of England, grounded in her soil and rich natural resources, more gradually wrought that of Holland. Had Holland, however, been equal in natural and manufacturing resources to England, instead of England being able to drive her from the seas, by her Navigation Acts primarily and chiefly, she would in all probability have been able to do little more to this hour than share with her the shipping trade of the world. But on the other hand, no richness in soil, mines, or manufactures, could in those days give to any nation a world-supremacy, unless they in turn were backed up by those facilities of *transport*, which a sea-power ready alike to fight and to trade could alone supply. Besides, before the days of railways, how could manufactures except of the rudest kind and with the most restricted home market, exist, much less develop and expand, in any country, however great its undeveloped natural resources might be, unless they could have access to the sea by rivers and canals; and especially when the sea itself and the countries of the world which it washed, were barred to them, not only by the superior hostile fleet of England, —always ready to attack the ships of other nations,—but by the rigid Navigation Acts, which practically forbade the products of all other countries being brought to England, their best customer,—inasmuch as it was she alone who at that time could supply them with the manufactures they wanted—except in her own ships? No, much as the shipping trade of England has flourished under Free Trade, from the time that her manu-

factures had reached their world-wide supremacy, it must not be forgotten that it was by Protection,—by the Navigation Acts,—that *all* her resources, her shipping trade, her manufactures, her soil and mines,—were for the first time welded into a compact industrial fighting machine and instrument of war, each part supporting and playing into the hands of every other, and all alike animated by the consuming desire not for any merely miscellaneous cosmopolitan benefit, but for the greatness and aggrandizement of England,—and England alone. But to imagine that the fortunes of the shipping trade of England will not also attend and follow the fortunes of the great industries which gave both to her and it their power, when once these have passed their meridian and are declining gradually to their setting, like those of Venice and Holland before them, is to entertain the dreams of those Spaniards who, still clinging to the memories of their lost greatness, may be seen bowing to each other in dignified solemnity and with perfect Castilian grace, as if each peasant of them were still a hidalgo bending in lofty condescension to receive the homage of a subject world, while their torn and weather-beaten cloaks flap and whistle in the wind. In a word, the shipping trade of England was cradled in Protection, and was only allowed to enjoy perfect freedom when her manufactures had *already* attained to a world supremacy. Should these manufactures decline and lose their primacy, the shipping trade will again have to be protected like all others, or consent to step down from its imperial position. And yet, in spite of the importance of this shipping industry to Free Trade at the present time, it is not long since the Free Traders saw a large slice of it detached bodily by an American syndicate, almost without a wince; on the ground, as usual, that if it had to go, there was always *something else* to which we could turn to make up for its loss;—the only concern which the transfer of the ships gave them, being due not to their loss economically, but only politically, and as a matter of defence in the event of war.

CHAPTER VII.

FREE TRADE AND INSTRUMENTS OF PRODUCTION.

IF the Free Traders give themselves so little concern in face of the danger of the greatest of all our trades,—the Shipping trade,—passing to the foreigner, on the ground that we can always turn to something else, it is surely time to consider seriously what the cost of losing a great industry really amounts to,—quite apart from the question which we have just been considering as to the number and character of the trades on which it is still possible to fall back, after the whole or the greater number of the great industries having their roots in the natural resources of a country, have been driven from the field. Or to put it differently, and to reduce the problem to its simplest terms:—How does the balance of profit and loss stand, in the loss, on the one hand, through competition, of an *instrument of production*,—say, a piece of land, a mill, a factory, or a bag of workman's tools,—and the gain on the other hand to the consumer, in the *cheapness of the product* which the success of the competing foreign rival involves? Now, if we can only clear the ground of complications at the start, by separating out clearly the various extraneous elements, political or other, in the problem,—which only serve to obscure it while having really nothing to do with it,—so that we have only the purely economical aspects to deal

with, we can solve it without difficulty, dip into it where we will. And the first proviso on which we must insist before we start, is the distinction which I have already made between *competitive* and *complementary* products; for it is to the failure to make this simple distinction, that perhaps most of the difficulties and contradictions of the problem of Free Trade and Protection are due. For in the very essence of all industrial exchange, the idea is involved that the products exchanged shall be complementary, and not competitive. No shoemaker as such exchanges his products with another shoemaker, but with the tailor, or baker, or butcher; and all such exchange is at once peaceful and beneficent, blessing him who gives and him who receives; and so far is a distinct *addition* to the wealth of an individual, a nation, or a world. And when we take the infinite varieties, denominations, qualities, kinds, and subdivisions of every great general industry which the division of labour throughout the world as a whole has thrown into the stream of circulation, there is scarcely a product in any one great trade that will not be found *complementary* to some other in the same trade. The exchange between these will also be found to be peaceful, beneficent, a blessing to each party to it, and a distinct addition to the sum of utilities in which real wealth consists,—as the exchange of corn for manufactures, or manufactures for wine. A shoemaker, for example, who makes only ordinary shoes, in exchanging a pair of them with another shoemaker for a pair of patent leather shoes of which the latter makes a specialty, is effecting a complementary exchange in quite as true a sense as if he were exchanging them for bread from a baker. And that is why, as I have said, were the world a single *political* unity, Free Trade everywhere would, by flooding every part with the products of every other, give a greater market to each and all than would otherwise be possible; and as the exchanges would all be complementary,—inasmuch as each would buy just those things and gradations and varieties of things which he did not

himself produce,—a greater amount of exchanges, and a greater satisfaction from them at the least possible cost (owing to the absence of tariff barriers), as well as a greater number and variety of instruments of production, would result; and these are precisely what constitute wealth. Not that this would involve either the absence of competition, or the equal distribution of wealth over all areas alike, as when water is poured over a level field; on the contrary, as we have seen, the greatest wealth would heap itself up in the geographical areas most favoured by nature for the production of large classes of products of the same general kind, and be withdrawn partly or altogether from those areas that were relatively less naturally productive in all kinds, as well as from those that were relatively almost barren. When once sufficient time had elapsed to enable the competitive industries to test their relative strengths, they would weed one another out,—as animals of the same kind do in Nature,—and after this process of exclusion had been satisfactorily consummated, and, as in the conflicts of rival stags, the stronger only were left, the exchanges between each part and every other would be complementary, and in every way beneficent. But, observe, that being all part of the same *political* unity, this process of the weeding out by competition of each industry or division and specialisation of industry by others of the same division or kind, is part of the game which is being played, and is accepted by all; and when the population of any area is dispersed, owing to its industries being carried on at a loss, it always has the satisfaction of knowing that the loss is still the gain of its *own* nation, and that, unlike the Jews in history, its population can find for itself everywhere a home; precisely as when in any particular nation, as in England for example, the great manufacturing and textile trades migrate from one part of the country to another. But that is not the game which is played by one nation *politically* independent, with other nations equally so; and the game not being the same, neither are its rules.

For now the economic as well as the political problem is,—how the particular nation is to draw to itself (by any means not outside the international code) as much wealth as possible *from* other nations, how, in a word, to aggrandize itself at the other nation's expense—quite a different question. It is the difference between a game like football or cricket where, whatever rank the different members of the team may hold in relation to each other, they all, after preliminary competitive trials of strength to test their efficiency, act in concert as one man, and so are all complementary to each other: and a game like gladiatorial shows, boxing, billiards, etc., where the competitors weed each other out down to the last man, and where each when beaten in the single combat,—unless he can reinstate himself by new methods or additional training,—is henceforward, so far as the sporting world is concerned, in position, dignity, and general estimation, defunct.

Our next proviso is, that the *political* elements of the problem shall be kept separate from the purely *economic*, until, that is to say, the economic have been settled;—such elements, for example, as what to do with any part of the population that has been thrown out of work by trade dislocations: what to do with the industrial incapables of all kinds from whatever cause arising, personal or economic; how to effect a more equitable distribution of the products of labour by legislation, as by a minimum wage, the taxation of 'unearned increments,' or what not; how far to sacrifice part of the possible national income for the purpose of providing food and necessaries at the cheapest possible rate for the poorest classes of consumers—the congested slum-dwellers, the moral and physical wrecks, the profligates, and the 'ne'er-do-weels,'—as well as for the genuine unemployed; how to arrange for the defence of the country in considering the question of population; and so on. All these belong to the domain of Politics, and although in every State which forms a political unity or nation they must at every time and always take precedence over purely economic

considerations, they must never be mixed and confounded with them under a common category, and labelled as 'economic principles'; for until the political and economic constituents are clearly separated out in thought, and their respective effects on national well-being distinguished, no solution of any great problem involving both political and economic elements is possible. And nowhere can a better instance of this be seen than in that afforded by this very problem of Free Trade *versus* Protection, as conducted in the ordinary course of newspaper and magazine discussion, where chips and snippets of politics and economics combined are served out to the reader from day to day with but little attempt to separate them from one another. And indeed, we may venture to predict that until editors of newspapers and magazines will consent to give more ample space to the full *scientific* discussion of all the cardinal positions in turn on which the solution hinges than they have hitherto thought it necessary to do; and having first convinced themselves, will keep their readers to these cardinal issues until they are convinced also;—although the public, as members of one or the other political party, will continue to record their votes, still the subject will be tossed about to and fro like a carcase on the top of the waves, and no one will ever bo *convinced*, in the proper sense of that term;—in the sense, that is to say, in which men are convinced, for example, that the earth goes round the sun, and not the opposite, first, by the scientific demonstrations of the mathematicians and astronomers, then by the acceptance of this demonstration at each step by the intelligent minority competent to follow it, and lastly, the acceptance in turn of this consensus by the vast body of the uninstructed who know nothing about it either way, and to whose natural impressions it would be a stumbling block. Indeed it was by this process that the belief in Free Trade was originally established; but now that the conditions of Industry on which Adam Smith quite naturally based his conclusions have been so completely

reversed that none of his arguments apply,—so much so, indeed, that, as we have seen, they are rejected one and all by the modern Free Trader himself,—the same process of conviction must be gone through again, if the nation is to be as firm in its belief, one way or the other, as it was for fifty years in its belief in Free Trade. Nothing has served to impress this more on my mind than the receipt while writing this chapter of a long and elaborate document on Free Trade by the accepted Parliamentary candidate for this constituency. It was an out-and-out defence of Free Trade from beginning to end, and dealt exhaustively with all the usual aspects of the subject as they appear in the newspaper and platform discussions. I read it over carefully, and was surprised to find that when I had finished it, there was scarcely anything in the facts, statistics, turns of the argument, or even in the *formal* deductions drawn from them, to which I was seriously inclined to object,—except indeed the conclusion itself! And yet here am I engaged in writing an elaborate vindication of the principle of Protection both on political and economic grounds! Now what is the explanation of this apparently illogical attitude of mine? Simply this, that the writer had cunningly all along mixed his Politics with his Economics in such a manner, that as in a mixture of brandy and mineral water, he was constantly attributing the effects of the brandy to the mineral water, and of the mineral water to the brandy, without knowing it; and to the equal confounding of both! And so, like a skilful circus rider, passing lightly from one foot to the other, now on to the political horse, now on to the economic one, while professing, and indeed believing, all the time that it was the pure principles of Economics alone that he was expounding, he swept triumphantly around, taking all the hurdles and paper hoops in turn with ease, and after each of them pausing to challenge the homage of his opponent and the world in general on his skill, until he reached the end of his course; but teaching me, for one, that no great and complex subject, any more than

a sleight-of-hand exhibition, can ever be other than a tissue of fallacies, until each of its elements and their respective effects have been accurately separated out and analyzed to the bottom,—and in none is this more necessary than in this problem of Protection or Free Trade.

Carrying then with us the following provisos;—first, that the political elements of the problem must be separated from purely economic ones; secondly, that the game that is being played is not how to enrich *the world in general*, but how to enrich your own particular nation, even if at the expense of other nations; and thirdly, that *complementary* products are to be distinguished from *competitive* ones;—carrying with us all these, we shall find that the special aspect of the problem which we are here considering,—namely as to how the profit-and-loss account of a nation stands between losing an *instrument of production* on the one hand, and getting its *product* cheapened to the consumer on the other,—can be solved with comparative ease. It matters not what the area of industry which we take for examination may be, what the range or variety of trades included, or what the number of nations concerned;—for the economic principle involved, holds alike for the largest as for the smallest, for the most complex as for the most simple, for the many as for the few, for the world of separate nations as for a single nation,—provided always we keep strictly to the unit we have marked out and delimited for discussion. We can take a single workman and his tools as against other workmen and theirs; a single village with its surrounding country as against other villages and their surrounding country; a whole division of a country with its different towns engaged in different industries, as against other divisions of the same country; or finally, the country as a single political unit with all its industries, as against all other countries and theirs;—and we shall find the solution work out the same in all.

Take, first, an individual isolated workman with his bag of

tools. Up to the time of his parting with them, what had he? He had the certainty of a livelihood at a standard of living keeping him in working efficiency, *plus* the certainty of a continuance of that livelihood during all his normal working life; his times of out-of-work not entering the problem, inasmuch as they belong to the domain of *political* arrangement, and when due to slovenly laws, laissez-faire, or to the go-as-you-please and take-your-chances species of political incompetency, are no more to be charged against the purely economic principle, than the jamming of a crowd in the exits of a theatre for want of supervision is to be charged to the construction of the building itself when it has once been admitted that this is up to the normal and accepted standard. But if it be urged that a shoemaker cannot live on the boots he has made, we reply that what all trade exists for is precisely this *complementary* exchange of something you have, for something *different* which you have not, but which you want or need; and that it is thus a mutual benefit to both the parties concerned. So far, then, all is well with our workman. But now suppose he parts with his instruments of production,—his hammer and his awls,—for the sake of a cheaper boot than he can make for himself, how then does he stand? Instead of making a living for himself in the present, plus a living in the future during the remainder of his working years, two courses are open to him;—he can either wear his cheaper pair of boots until they are worn out, and during the process, fast, starve outright, or live on charity; or he can spend the difference in price between his own boots and the cheaper ones for which he sold his tools, for a more expensive dinner of chicken and wine than the ordinary meat and ale on which he has been accustomed to live, and afterwards and for the rest of his working life starve or live on charity as before. Clearly our shoemaker has made a bad bargain in parting with those tools! But the balance of profit and loss between losing an instrument of production and getting its product cheaper for the consumer, will be the same

if we take an isolated village of working industrials,—with its shoemaker, its blacksmith, its baker, and its surrounding fields,—as our unit of comparison, as against other villages with theirs; as it is a mere reduplication differing in numbers only, and will require no further comment. But if we still further widen the area and complexity of our unit, and take a manufacturing town with a variety of large capitalised industries, and the surrounding country, as our standard of comparison, as against other manufacturing towns with the same industries, the result will be the same. But in this case, unlike the individual workman who lost his instruments of production—his bag of tools—by directly selling them for the sake of cheaper products than he himself could make, the great capitalist manufacturers of the towns lose their instruments of production—their mills and factories and workshops—not by selling them outright like the workman, but owing to their products being *undersold* by their respective rivals in other towns; their mills in consequence being closed down, and their workmen thrown out of employment. Here, again, the profit-and-loss account stands as follows;—*before* the invasion from the other manufacturing towns, we have the workmen maintained for the present in their accustomed style of living *plus* its future continuance during their normal working lives; and the capitalists living on the current profits from their manufactures, *plus* the future continuance of these profits during their life-time. But *after* the invasion has been successfully consummated, and the mills have had to close down, we have not only the livings of the capitalists cut off for the present, but for the future (except in so far as like pensioners they can live on their savings), and when these savings are exhausted, starvation or charity. And as for the workmen, with the mills and workshops closed, they have neither a living for the present nor for the future,—and so they too pass on to starvation or charity. And now, if we still further enlarge the area, number, complexity, and mobility of our industrial unit of comparison, and take, say, the South

and East of England,—formerly the seat of her manufactures,—as against the Midlands and the North which through their rich natural resources in coal and iron drew away the manufactures of the South and East to themselves,—again the result is the same. Before the commercial conquest of the South by the North, you had agriculture *plus* the manufactures. which, with the transport facilities of the Thames, made the fortunes of London, and kept her permanently in her primacy as the metropolitan centre of the kingdom; after that conquest, the South and East of England went back to agriculture and sheepwalks again: while the Midlands and the North, had they been able to carry the metropolis with them before the population became so vast that for political reasons it could not be removed, would by this time have centred both the wealth and the population of the country within their own borders, and left the South and East as poor as the Ireland of to-day.

And now we come at last to the unit of comparison which brings the problem of Free Trade and Protection up for judgment on the purely economic question of the balance of profit and loss involved in Great Britain, as a single economic whole, losing on the one hand her great instruments of production one by one to the foreigner by trade competition, and the gain to her consumers on the other, by the greater cheapness of the corresponding products. In the face of what we have seen can we have any doubt of the result? Is not the fact that no statesman, be he Free Trader or Protectionist, can, as we have seen, be induced to put a direct tax on any instrument of production whatever,—neither on factories, nor mills, nor workshops, nor vineyards, nor horses and carts, nor any other form of fixed capital,—nor yet a poll tax on the workman; and moreover will think twice before he puts a direct tax on incomes, for fear lest it should hit parts of them that are being used to increase or replace instruments of production; while on the other hand, when taxes are necessary for revenue, he will ruthlessly sacrifice the mere cheapness to

the consumer of any ordinary product wherever he can lay his hands on it—whether it be the old woman's tea, the working man's tobacco, or the consumptive expenditure of the capitalists on horses and carriages, and wines, fine houses, etc.; —and if he stays his devastating hand at sight of the 'big and little loaf' of bread, it is because of the portentous *political* importance attached to it, but never on merely *economic* grounds;—if all this be so, is it not of itself not only an argument but a proof of how the balance of profit-and-loss stands between losing an instrument of production on the one hand, and gaining a mere cheapness to the consumer of its product on the other? And is it not further a proof that men and statesmen really know where that balance lies, although by mixing up politics and economics together under the common category and denomination of 'economic principles,' they have benumbed their natural and instinctive penetration, and deadened it in the roar and hub-bub of political and party clamour?

For on the one hand, it is evident that *before* the foreign invasion, which by our hypothesis has lost us our instruments of production for the sake of cheapness to the consumer,—the assets of the nation were work and subsistence both for the present and for the future of the working population, *plus* profits and a living for the present and for the future of the capitalists who own these instruments of production; while on the other hand, *after* the invasion has carried off these instruments to foreign lands, there can be neither work nor a living either for the present or the future, for either the capitalists or the working men. And with result what?—emigration, the workhouse, starvation, and the political loss to the country of its independence, dignity, and power among the nations as well. Now, when I say that all men and statesmen whether Free Traders or Protectionists instinctively know the economic difference between destroying an instrument of production for the sake of the cheapness of its products, and

retaining it at all hazards (as is seen in their anxiety not to tax it), I would expressly exclude all those who have allowed the general abstractions of the academic doctrine of Free Trade in which they have been brought up, to override their natural intuitions. And the reason of this, I think, is largely the fact that in the background of their minds is always the idea that there are certain things which *in any event* can be counted on, somehow or other, always to put everything right. First, that there is always some *other* industry requiring different instruments of production to which a nation can turn when the old ones are lost; secondly, that many minor instruments of production are but subsidiary *means*,—mere raw material, as it were,—for the really great instruments of production concerned in the manufacture of the finished article, and so ought logically to be placed, like foreign cotton, under the economic category of raw material, rather than under that of genuine instruments of production; and thirdly, that whatever befalls, they can always fall back on that comforting doctrine of the orthodox economists that there is always a *common reservoir* of economic wealth and power in the world, which if you will only keep your gates and sluices open by Free Trade, will by its to-and-fro movement of exports and imports, keep this wealth going on for ever, evenly and impartially distributing its benefits over all nations alike. Now this last doctrine of the common reservoir, to which I have already so often referred, is so serious a delusion, so real a piece of old perpetual-motion scheming which has come floating down like an iceberg to our time when all else has melted, that I shall have to devote a whole chapter to it; but a word or two on the first two may fitly find a place at this point in our discussion.

As for the first, that there is always some *other* industry to which a nation can turn when one after another of its existing industries has been lost through the stress of foreign competition;—if we begin with the single isolated workman and

his bag of tools, is it impertinent to ask the Free Traders, to what other occupation he can turn when he has sold them, unless indeed it be to searching for berries, snails, or herbs, on which to live? For he is now in the position of the Indian who has sold his rifle or fishing-prong to a rival tribe for some beads or a more dainty morsel of food. Or to what trade can either the shoemaker, the blacksmith, the wheelwright, the butcher, or the baker confined to an isolated village retire, when these trades have in turn been destroyed by competition from a neighbouring village? Or in what capitalist industry could the South of England, for example, find a refuge, if it were destroyed by the competition of the Midlands and the North? What would be left to them, but to crowd into the towns to swell the ranks of the unemployed, and still further congest the docks, the soup-kitchens, the workhouses and the slums? In urging these considerations, I have been careful to keep the purely economic aspect of the question separate from the political, and by confining the discussion to definite economic issues as units of comparison, have endeavoured to show that the economic absurdity of permanently losing an instrument of production for the sake of cheapness, is as great, —however large may be the area taken as our standard of comparison,—as in the simple and palpable instance of a workman parting with his tools. And if I now extend the same economic law or principle to *the nation as a whole* in its relation to other outside nations, I am proceeding, I submit, on the lines of a strictly scientific induction. For no economist has ever asserted that as a matter of pure economics there is any difference to be made between the laws which determine the trade relations of one nation with another nation, and the laws which determine the trade relations of one village with another village, one town with another town, or one division of a country with another division of the same country. It is only *politically* that there is any difference. Whether one part or division of a country gains or loses in reference to another part

—whether that part be a town, a county, or a group of counties, —makes no difference economically, inasmuch as they are all parts of one and the same nation. But when one nation beats another nation economically, it makes all the difference *politically* to the loser, as it will soon discover if it has to raise the sinews of war to resist an act of unprovoked aggression or injustice on the part of the foreign, and now superior, economic power. And that is why the true solution of the purely economic problem of Free Trade *versus* Protection is of so much political importance;—it is because 'the defence of a nation is more important than its opulence,' and because (until the millennium comes) the independence, dignity, and power of a nation depend on its wealth, as the only *means* for the realization of that independence, dignity, and power. And it is for the same reason that it is so important not to mix politics and economics together in a conglomerate mass, to the confusion of both, but to first make clear our economic bearings, in order that we may afterwards adapt them in this way or that to the higher considerations of national or international policy; in the same way as you first make sure of the mechanical laws which insure the stability of a house or a bridge, before you arrange the details of its architectural structure or the nature and conditions of the people or the traffic that are to live in it, or pass over it. That nation which can attain to dominion and authority over other nations,—whether by the sword as in earlier ages, or by wealth as at the present time,—can impose on these nations its civilization, its code of morality, and its political *ideals* also, as the history of the world has given proof; and, therefore, we say again, look primarily to your *economic* stability, and then your higher and nobler political ideals will be able to take care of themselves; whereas, if you begin by postponing your economic interests to your politics by sacrificing your instruments of production for the sake of mere cheapness,—and that, too, not in the interests of the genuine working man, but of the most hopeless of the incapables in the

slums of great cities,—you will speedily end in finding the whole population—genuine working men, capitalists, and all—demoralised and thrown on your hands to feed and provide for. It is a political madness as great as it would be for an army, in the midst of a complex strategetical engagement, to turn round in the face of the enemy and attend to its wounded *first*, while allowing its general and organizing officers of division to be captured; and at bottom is part of that organized hypocrisy against which Carlyle so inveighed in the chapter on 'Model Prisons' in his 'Latter Day Pamphlets,' and which in its attempt to mix up Christianity and politics in a 'patent treacle,' ended in building up for its criminals, dwellings with corridors magnificent and spacious as those of duke's mansions, along which the 'heavy ox-faced villains' paced in ease and leisure; while outside the prison walls, the industrious little shoe-maker in the rear of his wife's shop 'with its crossed pipes and herrings in the window' was struggling hard to make ends meet,—with no provision, help, or outlook before him but the workhouse; as deadly and in the end as poisonous a mixture of politics, economics, and philanthropy combined, as that which exhausts the organized ingenuities of Church and State in contriving how specially to provide for the drunkard, the loafer, and the tramp, while but languidly and intermittently making efforts to help the genuine working man back to his work without degradation to himself. On the other hand, as for the really great men and guiding spirits of a nation in their various departments of thought, under this confused mixture of politics, economics, and philanthropy, it is strongly held by the editors of journals of great influence and authority that not only may the State allow them to exist in a condition of semi-starvation, but that the public may quite conscientiously dismiss their interests from their minds,—provided they can only be kept nicely balanced on that narrow edge overlooking actual starvation which is known as 'genteel poverty,'—inasmuch as that is the condition, so these journalists contend, in which

men of genius will always be found to yield their finest fruit, and in which the public will get the best and largest amount of work out of them at the least cost: and in this doctrine, which they are anxious to see carried out, they justify themselves by the physiological analogies of the over-fed fowl which will not lay, and the half starved peasants who when the State is threatened with a future deficiency of population for war, can always be depended on to yield the largest progeny. Instances of the effects of this doctrine are so frequent in the lives of great inventors, artists, musicians, literary men, and philosophers, that they are always cropping up in the newspapers, and often at the very time when philanthropists are racking their brains to know what they can do to help the derelicts, incapables and street-corner loafers, while obstinately refusing to put out a finger to help the genuine working man. On the other hand, it is equally held by these writers, that politicians, soldiers. lawyers, business men, and the like, (whom, as a solace and flattering sop to the disinherited on the 'genteel poverty' line, they affect to regard as inferior, grosser, and much tougher-fibred mortals!) must be fattened like queen bees and milch cows, with wealth and luxury; and befeathered with titles and the trappings of personal dignity and power; else, say these writers, they will strike work altogether, and the public will suffer; and therefore provision of ample salaries, dignities, and rewards for these, must be made by the State its first consideration and concern. One such editor, I remember, who consistently preached this doctrine—of genteel poverty and personal renunciation in money matters for great men—in his journal for many years, and never lost an opportunity of punctuating it as often as the occasion arose, (he was greatly distressed, I recollect, when Tennyson, a mere literary man, was raised to the peerage for literary distinction alone); and although he left a large fortune from the profits of the journal which he edited and partly owned, he still continued to preach the doctrine until his death. And

I do not question that had he been living to-day, he would have seen without compunction the disgraceful spectacle, as I write, of musicians of high contemporary note reduced, by the piracy of their copyrights, some degrees nearer to the abject starvation line than the particular blend of genteel poverty which he personally preferred;—and that, not more because of the cheapness of the pirated music to the consumer, than as a pledge of the future good work that could be squeezed and wrung out of the poverty of its producers. But this is a digression. The upshot of it all is, that as each person is in turn a producer *and* consumer,—a producer of his own work and a consumer of the work of some other man,—this mania whereby *all* men (or the State) are asked to sacrifice everything to cheapness to the consumer, means that *each* man must be prepared to sacrifice his own particular instrument of production, like our workman his bag of tools,—and with result, ruin. The fallacy lies in the habit of regarding all people in a way as consumers, while having in mind mainly the great body of the poorer classes with whom one whole side of politics, namely the economic eleemosynary side, is chiefly and indeed rightly concerned; and of identifying the producers with the capitalist class only; whereas the producers include not only the capitalist class, and their great instruments of production, but the entire mass of workers who are necessary to keep these instruments of production working up to their normal level of efficiency. In other words, if we except the pensioners and the paupers,—none of whom can properly be said to be engaged on the wheel of wealth at all,—we shall find, as we have already seen, that the producers and the consumers are one and the same people; and that men never could have fallen into the fallacy of thinking otherwise, were it not that they have confounded this economic division of society in which all are alike producers *and* consumers, with the quite different division of society for purposes of taxation,—where the producers are identified with the capitalists, and the

consumers with the great body of wage earners, as a necessary preliminary to the distributing of the taxes fairly and evenly among the different classes in a nation;—a question of Politics, in a word, not of Economics. But I will go farther and venture to affirm, that there could be no controverted problem of the relative advantages of Free Trade and Protection to discuss, if once the reader would only keep firmly fixed in his mind the fact that *economically speaking* every producer is also a consumer, every consumer also a producer; for then no one would dream of endangering by foreign competition any instrument of production necessary to the great body of producers, for the purpose merely of making the product cheaper to the same great body as consumers;—any more than they can be brought, on any consideration whatever, to put a tax on any instrument of production as such. This simple consideration alone would be sufficient of itself to solve the whole problem of Free Trade and Protection,—so far, that is to say, as its purely economic aspect is concerned. For, as we have seen, the balance of economic profit-and-loss between losing an instrument of production (whether by taxing it to death or by driving it out by foreign competition), and getting its product cheaper for the consumer, falls always on the one side, whatever unit you take to test it on,—whether it be an individual workman with his bag of tools, a village, a town, a division of a country, or the country as a whole as against other nations. So that it becomes an axiom of trade policy, never to lose an instrument of production for the sake merely of a greater cheapness in its product.

Now, the first objection that is likely to rise to the lips of the Free Trader is this;—Do you mean to say that you would not sacrifice all the private bags of tools of all the workmen in the kingdom, if necessary, for the sake of the cheapened products of the *superior* instruments of production in the shape of machinery which in so many forms have replaced them, simply because these products come from abroad? Or

all the capitalists with inferior kinds of machinery, for the cheaper products of better machinery from abroad? Would you not have the shoemakers sacrifice their last hammer and awl, the carpenters their last plane and chisel and saw, for the cheaper but equally good products of planing, and stitching, and cutting, machines; the seamstresses their last needles for the cheaper and equally good products of the sewing machine; the manufacturer his mills, and factories, machinery, workshops, and skilled workmen, for the cheaper but equally good products of superior machinery, better organized workshops and more highly skilled workmen; or the farmer his last acre, for the cheaper corn of richer lands? This is the very nodus of the whole problem of Free Trade or Protection for a nation, and my reply is definite and unhesitating. To put it briefly, it is this;—the carpenter, the shoemaker, the tailor, the farmer, as well as the capitalist manufacturers of every grade, quality, or description of product, may, as cheerfully as they can, sacrifice their last tool, workshop, or machine, for the sake of a cheaper article of the same kind to the consumer,—provided always that the competitors who have brought them to this pass belong to the *same* nation. And why? Firstly, because it is the recognised rule of the game, accepted and submitted to by all the individual members of a nation in their industrial and trade relations with each other; and secondly, because however great the number of the inferior instruments of production which are supplanted by the superior ones may be, nothing is lost; for the superior ones, however few in number, not only gather up and concentrate in themselves all the powers of all the inferior ones which they have displaced, but still leave something over to the good for the nation itself;—as is proved by the fact that all its consumers are getting everything at a less price. And if, as is equally true, every inferior instrument of production that is thrown out by a superior one throws out of work a number of workmen also (inasmuch as the greater part of the work done by

the superior instruments of production is done by impersonal powers of Nature called into being by inventive genius), and so leaves less to be done by mere human labour:—that is a problem which Politics has to settle by altering the rules of the game which bear on these recognised contingencies, and must not be mixed up with the purely economic problem with which, as such, it has nothing whatever to do. But if it be a foreign nation or circle of foreign nations, on the other hand, that is making the attempt to displace our instruments of production by means of the cheaper products of its own, then the game at once alters, and has to be played on quite a different principle, and by an entirely different set of rules. For now, the instruments of production which by the cheapness of their products have supplanted our own, belong to *foreign* nations; and as the instruments of production of a nation consist of its fixed capital of all kinds and the skill of the workmen; and further, as these are the only *permanent* wealth producing assets of a nation (all their *products* being implicitly contained in them and not to be counted twice over); it follows that when they are transferred, as the issue of trade competition, to other nations—one to one nation, another to another—first, a subordinate instrument engaged in extracting raw material or producing half manufactured goods going across to the foreigner, then another and another, until at last the great and complex machines engaged in manufacturing the finished product, with all their subordinate and co-operative collaterals, are forced to close down by being undersold;—it follows, I say, that economically speaking, that nation having allowed its arms and legs to be cut off for the sake, as it were, of its stomach, must as literally starve or depend on foreign charity for the future, as a single Red Indian hunter would have to do if he sold his rifle for a more delicate morsel of venison, or, (as I have known drunken Mohawks do in Canada), for a bottle of whisky; or an isolated workman his bag of tools not for a better bag of tools, but for

a cheaper mess of pottage. And the practical conclusion of it all is, (and it might be inscribed as a maxim over a nation's ports in letters of gold), that in the game of commerce which is being played between nation and nation ;—Never sacrifice an instrument of production to a foreign nation for the sake of a merely cheaper *product* of the same kind of instrument, but better, which they possess but which you do not; but do as you do at home, and sacrifice it only to the acquirement of the *superior instrument of production itself*, which cheapened that product—if you can get it. But can you get it?—there's the rub! For, although it is comparatively easy for a distressed seamstress living in the midst of a rich and completely organized society, to manage, by extra penuriousness, hard work, or the impression which her honesty and good faith have made for her, to buy a sewing machine to replace the mere needles and thread (her instruments of production) which were formerly all her stock in trade; and although the day labourer in the same way may buy himself a horse and cart, the manufacturer a new and improved machine, and the great capitalists, joint stock companies, and Trusts, all kinds of machines necessary to enable them to hold their own against competition, domestic or foreign;—all this is not the difficulty. The difficulty is rather a practical impossibility; and consists in the fact that when once the great industries which have made the fortunes of a country and which give it its recognized status among the nations, can be successfully invaded in their own home markets, it usually means that the case has passed beyond the aid of medicine or surgery, that all has already been done in the way of the introduction of the best inventions and machinery to stave off disaster, and that the superior instruments of production which have enabled the foreign nation to permanently undersell its rival in its own home markets consist not of any mere machine or machines that can be bought for money, but of a complex of economic advantages which are *not transferable* from the

one nation to the other,—richer soils, more easily and cheaply worked mines, greater hereditary skill in the working population, greater natural facilities for transport in its rivers and harbours, in the natural internal conformation of the country, or in its geographical position in regard to sea traffic, etc. It means in a word, that the defeat is likely to be a *permanent* one, and that the defeated nation will never be able by any known means to reinstate itself in its former position,—unless, indeed, it can defeat its successful rival in war, and so get its instruments of production into its own power again. So that when our economic maxim, never to part with the use of an instrument of production for the sake of the greater cheapness of its products coming from the use of a superior instrument abroad, but to part with it only for the superior instrument of production itself;—this maxim when translated from abstract to practical economics is found to mean—Never part with your great instruments of production at all—those namely, that are grounded on your natural resources, either in your soil, your mines, your hereditary skill, or your transport facilities; but when you are threatened by *superior* natural resources of the same kind on the part of other nations, put up your tariffs against them, and behind their protecting walls work up your own instruments to their highest point of efficiency, sparing no expense to introduce the best purchasable instruments for your purpose,—machines, patents, etc.,—which the world has to sell; and, like the Americans, ruthlessly 'scrapping' all inferior instruments so soon as they are superseded anywhere in the world by better. And this,—as we should expect from any principle that grounds itself on ultimate economic realities and not on abstractions,—is found to be the practice of all the great nations of the world to-day who have not attained to supremacy. As for those that have attained to supremacy, they can freely open their ports; for nothing *competitive* can by the hypothesis enter, and all that enters must be *complementary* products, and these are always a benefit;

indeed, as we have already said, it is only in the exchange of complementary products that the economic benefits of exchange itself consist. But should any nation, like England, which was once supreme, show signs of being gradually caught up to, and ultimately defeated,—now in this industry, then in that,—by foreign rivals, it too must be prepared to put up its tariff-walls when the time is ripe, just as all other nations have done and are doing to-day. Whether and when that time is ripe can never be determined by any merely abstract economic dogma like Free Trade, believed to hold true of *all* conditions whatever, and to contain within itself some magical efficacy, some reserve power, which like a *deus ex machinâ*, will always intervene when things are going badly, to put them right again; but must depend on trade statistics accurately and carefully compiled, and illumined by the keenest, most penetrating, and most disinterested intelligences which the nation can command.

The above discussion sums up most of what has occurred to me as to the principles involved in the vast mass of statistics and arguments bearing on the problem of Free Trade and Protection which have flooded the newspapers and magazines during the course of the Free Trade controversy, as well as of the principles more carefully and elaborately set forth in the works of the professional political economists of the orthodox and academic schools. That my contribution is very incomplete and imperfect I am only too sensible, but were I to stop here most of my labour would have been in vain. For with all my efforts to bale out the boat in which I have embarked, I should still have left the largest hole of all unstopped in the bottom; and through it, all the old water would come pouring in again. Before, therefore, I can close the discussion with any assurance that I have made the position I have ventured to take up water-tight, it is necessary that I should make a determined effort to stop up this last source of error, which, so long as it exists, must forever prevent

this perplexed problem of Free Trade and Protection from being brought to a truly scientific solution. It is a question which concerns rather the serious students of Political Economy of the Universities and Schools than the ordinary newspaper reader; but as the opinions of these academic economists, although ignored by the crowd, have a weight and authority, out of all proportion to their numbers, with those who are called to fill positions of political responsibility, the reserve arguments which they hold in their hands, but which never appear in newspaper discussion, cannot be ignored. I have already indicated the nature of my criticism of these arguments of the academic Free Traders, by characterising them as being in principle not merely analogous to, but identical with, the principle of perpetual motion in mechanics; and that is why I have said that unless this perennial source and inlet of all fallacy is stopped up, the to-and-fro arguments on the subject of Free Trade and Protection, chasing one another among the wheels as in a perpetual motion machine, may go on for ever without being settled. I propose therefore to devote a chapter or two to its discussion, and to it I now invite the careful attention of the reader.

CHAPTER VIII.

FREE TRADE AND SCIENTIFIC METHOD.

THE question we have to answer, then, in this chapter is:—why, on a burning subject like that of Free Trade and Protection, which not only divides the practice of the world into two hostile camps but its theory as well, the positions on which the Protectionists lay so much stress, as being of the most vital importance to the solution of the problem, are regarded by the professional Economists of the Free Trade school as of so little consequence one way or another, that they almost refuse to discuss them? The problem,—in so far as it is a purely economic one,—is concerned entirely with the exports and imports of a country and the relations between them; and therefore one would naturally suppose that everything connected with these exports and imports would be of living interest and importance, especially as the essence of the problem is not how this or that nation has prospered up to the present under Free Trade or Protection respectively, but whether, on a close inspection of the exports and imports, any indications are to be detected of the reversal of that prosperity in the future; precisely as the problem of the practical physician is to discover by a minute examination of organs and symptoms, not how healthy a man has been up to the present, but whether there are within him any seeds of disease which are likely to imperil his health. But the Free Traders, as we have already seen,

have spent most of their time in demonstrating that the exports and imports of a country must *balance* each other when all the suppressed items on both sides have been set down in the national ledger. Whether these exports and imports take the form of goods or of gold, of foreign loans or private credits, the cancelling of old debts, or fresh borrowings and the creation of new ones, the rendering of services not entered in the Board of Trade returns, the passage of bills of exchange, or what not, they must balance each other or trade would cease. But beyond this simple arithmetical proposition, the only facts which the Free Traders regard as of any importance in their bearing on the problem are;—whether the exports and imports *combined* keep up to their normal average or show a reasonable increase in proportion to the increase of population, and whether the Income-tax returns also keep up a corresponding average or increase. And when we find Free Traders,—who are as much concerned for the future of their patient, the nation, as the most noisy or fussy of Protectionists,—obstinately refusing to lay any stress on any other sign or symptom than the immediate state of their patient's pulse, and denying the necessity of making diligent search as to whether any other sign or germ of incipient disease is present which may have a bearing on his future condition, we are obliged, were it only out of scientific curiosity, to ask how it can be. For the orthodox system of Political Economy which is the text book and scripture of the Free Trader, and from which he has directly received his ideas, professes to be in its essentials a completed science, water-tight and logic-proof at all points; and if it ignores as unimportant all that the great body of Protectionists in the world regard as fundamentally important, it must be, one cannot help thinking, for some reason which seems sound and all sufficient. If, therefore, we could only find out the reason why nothing else matters in the discussion of the problem of Free Trade and Protection but the *present* amount of exports and imports

combined, and throw the limelight on that reason for a moment, we should get one stage at least nearer the prospect of some reconciliation in theory, or compromise in practice, between these two opposing economic camps and creeds. In all other sciences and philosophies, things are regarded as of no practical importance, firstly, when they are considered insoluble and beyond the reach of the merely human mind,—as for example in Theology and Philosophy, the co-existence and interaction of good and evil, of free will and necessity, of God and the Devil, or what not; secondly, when the science is confessedly imperfect, and has not as yet fathomed the deeper arcana of its subject-matter, and so has to suspend its judgment,—as for example, in Biology the problem of the co-existence in the same species of opposite sexes, or in Physics, the co-existence in the same unit of matter of attractive and repulsive forces; and so on. But that Political Economy—which professes to be a complete science—should in this special problem of Free Trade and Protection which deals with exports and imports solely, regard as of no importance and as not worth considering, such apparently important particulars as whether it is our own instruments of production, as seen in our exports, or other nations' instruments of production, as seen in our imports from them. that are in question; whether these imports are complementary, as of the exchange of corn for manufactured goods, or competitive, as of engines against engines; whether the exports are the products of unique and inalienable resources, as of gold or diamond mines, special qualities of coal or clay, special artistic skill, and the like, or only of natural resources either moderate in amount or of a quality common to those of many other nations as well; whether they consist of highly finished products, as of cotton, silk, or wool, or of raw materials and half finished goods only; whether these highly finished exports, again, draw their raw materials from distant lands and alien nationalities, as in the case of cotton, or are inherent in the soil and mines at home; whether the country is equally

richly equipped in all the collateral processes necessary to a great organic industry, or only in a few processes, having to depend on foreigners for the rest; whether the exports are of household articles in universal demand, as of food, clothing, utensils, iron and steel for railways, machinery, buildings, etc., or such as command small and scattered markets only, with little room for expansion; whether there are alternative employments open to the nation in the event of the capture of those on which it has hitherto been accustomed to depend, or whether the ring of possible industries to which recourse may be had is either practically closed, or is insignificant either in number or in the range of its operations; whether the exports on which a nation is relying are gaining or losing ground in those great organic industries which are rooted in the soil and in the hereditary skill of its operatives, or whether the nation is making up for its loss in these by a number of low class industries which can be carried on equally well by other nations, and which only keep their foothold by hanging on to the skirts of the still great but declining ones, and so must go when they go; whether a Free Trade nation relies for its permanent economic prosperity on being able to overleap the tariff barriers of other nations, or only on keeping its hold over neutral ones, or on being able by some 'favoured nation clause' to slip through the interstices left open by the protected ones in their trade competitions with each other; whether it conquers by its own industrial strength, like a lion, or makes up for its weakness by living on 'dumpings,' scraps, and leavings, like a jackal; whether the nation in question keeps up the volume of its imports by the number and strength of its instruments of production actually engaged in business, (and whose products pay for them), or, like a trader who is gradually losing his business but keeps up his accustomed style of living, in the hope of something ultimately turning up to repair his fortunes—partly by present earnings, and partly by its past savings, or, if the savings are large, partly by the compound

interest on that part of them which it does not consume and which is continually being reinvested—in a word, whether it is living on actual industrial operations, bringing in, say, twenty per cent profit, or like a part pensioner, on active business and savings combined, or like a full pensioner, on a three or four per cent interest only; and so on;—when we find, I say, that the Free Traders regard all these things as matters of indifference, it must give us pause, and demand our most serious consideration. Or, to put it in general terms before proceeding farther, we may say that when we find that in a problem depending entirely on the exports and imports of a country, none of the above particulars in reference to the character, composition, quality, or proportions of these exports and imports are considered to matter; when we find that all the things which a chartered accountant or auditor would take into consideration in arriving at the economic status of an individual trader,—in so far as his future solvency or insolvency, the bright or gloomy prospect of his business is concerned,—are regarded as of little or no importance when the future economic status of a nation is concerned (even when in the same breath it is admitted that the economic relations of a nation when trading with other nations depend on precisely the same principles as those of an individual trader doing business with other traders), and strangest of all, when we find that it does not matter whether you regard the imports as depending on the exports, or the exports on the imports; whether you regard as of primary importance what you have to sell to other people, or what they will give you for it; when we find them arguing that protection against foreigners,—who, be it remembered, will only continue to supply you with imports *so long* as you have exports to give for them,—is the same thing as the protection which the tallow-chandlers in Bastiat's classical illustration demanded against the competition of the sun, which supplies the world with its light *without* money and without price;—when we find that nothing of all

this matters, except only that the gross sum-total in pounds, shillings, and pence, of these exports and imports combined shall keep about the average or above it; and that even if it fell below it, that would not matter either, inasmuch as the deficiency would be sure to be made good by a corresponding increase in the home trade,—but of which they can know nothing, as there is no record kept of it in the Board of Trade returns;—when we find all this, it is evident, is it not, that we have here an instance of a science which is like no other science known to us; one that does not, like medical science for example, draw its diagnosis of its patient's present or future state of health from a minute inspection of particulars, of signs and symptoms and of the internal condition of this organ and of that, but like 'Christian Science' relies rather on some hidden fountain of reserve power capable of renovating all the organs alike however diseased, and in presence of which, in consequence, neither the signs nor symptoms, nor yet the actual state of organs and functions, healthy or diseased, need give us the least concern, inasmuch as they can neither interfere with the miracles that are being performed through them, nor have they the power to help or hinder the result.

And now if we proceed to enquire what this fountain of reserve power may be which the Free Traders believe they possess, we shall get our first hint of the direction in which to look for it by recalling to mind the principle which they have all along put in the very fore-front of their propaganda, —the principle namely, that the Free Trade which is best for the world in general is also necessarily the best for each particular nation in it;—which means, being interpreted, that there is a reservoir of wealth common to the world in general, which if nations will only keep their gates freely open, and throw down their tariff walls, will diffuse itself equally over all, like a liquid manure poured out on a level field. Now if this really were so, it would explain the peculiarities, the absurdities and contradictions that have so often puzzled us.

It would explain why orthodox Political Economy, dealing as it does entirely with the exports and imports of a particular country, can afford to ignore all particulars in reference to them except the single circumstance of whether their combined amount keeps up to the normal average or not. For this is just what we should expect from anything fed from a *common reservoir*—like a town' with its water supply—which will flow into every workshop and household whether they are engaged in competing with each other or exchanging complementary and friendly offices, in fighting or merrymaking, in producing or consuming, and where no one need give himself any concern in the matter except to see that the *general level* of water supplied to the whole body of inhabitants is not decreasing.

Now this hypothesis of some hidden reservoir of economic power which is so automatic in its working that by flushing all exports and imports alike, it enables the Free Traders to dispense with all concern about details, is also regarded by them as so axiomatic that it were a slight to the intelligence of their readers should they condescend to point it out:—like the proprietors of the bank of Monte Carlo who, with the steady advantage of the zero in their favour, can afford to smile at the ups and downs of gains or losses of the individual players with their feverish anxiety over difference of colour, sequence of spins, doubling of stakes, and what not, and can sail away in their pleasure yachts for indefinite periods without concern, as knowing well that these gains and losses of the players (like the exports and imports of a nation's trade) will always balance each other, while their steady reservoir of gain in the zero (like the increasing wealth of the world in general on which the Free Traders rely to add to their nation's wealth, whether it comes by exports or imports matters not), will always come home to them. And all this, in spite of the fact that the Free Traders not only freely admit, as we have said, that the trade between nations depends on precisely the same laws and principles as the trade between individuals in

the same nation, but also see that for success, the trade between individuals requires an eternal vigilance as to details, and that wealth is *not* a commodity like water or air which will equally wash in and out, flooding the coffers of all alike who freely bargain in it wherever it finds an opening, and rising to the same level in all: but on the contrary has the trick of becoming a private property, a sacred possession, which individuals will clutch to their bosoms, and hold and guard as tenaciously as their own bodily persons; and further that men will use it as much to draw wealth away *from* others by trade competition, as to make fair and equal complementary exchanges with them:—at any rate until the millennium comes and the unification of all nations as but families of one nation, sharing each with each and with all, is no longer a dream. If, therefore, we bear in mind that each nation is an independent political unit desirous at all hazards of maintaining its own dignity, independence, and self-respect, and that it can only do this by means of its own wealth and not that of another; and further, that the total wealth-producing power of a nation consists only of its *own* instruments of production or fixed capital, and that it can draw on the wealth of the world (in its imports) *only* to the value of the yield of these instruments of production (plus the yield of their invested savings), and not, as the Free Traders imagine, by a blank cheque to an unlimited amount, as Bastiat's grotesque illustration of the *gratuitous* bounty of the sun, which has been finally selected by them as at once the most complete, picturesque, and compendious expression of their doctrine, involves;—if we consider all this, and reflect further that when the instruments of production of one nation engage in trade with the instruments of production of another,—or, what is the same thing, the products of the one with the products of the other,—it is only the *complementary* products of each that rise to the *same level*, as it were, on both sides of the exchange fence, inasmuch as an equal value of wealth has been

given and received on both sides: whereas the *competitive* products of each,—*i.e.*, those in the same line of goods and made by the same kind of instruments,—must fight until the one *extinguishes* the other by underselling it, and by the same act not only closes down the machinery engaged, but causes the loss for all time of those powers of Nature which fed these machines and made each of them do gratuitously the work of hundreds or thousands of men;—if we consider all this, I say, and reflect that the transfer of these great instruments of production to conquering rivals is precisely the same as a transfer of rich and fertile provinces and territories to foreign nations in war, whereby the conquered nation can never again 'commandeer' the world to send it imports to the value of the wealth asset it has lost, we see how absurd it is to imagine that there is a *common* reservoir of wealth in the world, which if nations will only keep their sluices open and their pipes unobstructed by tariffs, will not only flush and fertilize all these nations alike, but the exports and imports of each nation as well; and how true it is, on the contrary, that each nation has its own *separate* reservoir, as represented by its *own* natural resources and instruments of production, and that these, which take shape in its foreign trade as its *exports*, can only command the wealth of the world in imports to an amount equal to these exports,—*and to no more*. So that if you took two nations in trade relations with each other, it is evident that the wealth from each of their separate reservoirs would rise only to the *same* height in each in those complementary products which yield a mutual advantage in exchange, but that the competitive products of each (when sufficient time was given them to test their relative strengths) would go over to one or the other side as the case might be, and would raise the height of wealth in the one column to a corresponding extent over the height of wealth in the other. And with result what? That the one which had now captured the instruments of production of the other and added them to its own, would immediately use its

greater power over the other to squeeze it, precisely as we see the great Trusts established in the States of the American Union doing to-day, viz., by forcing their goods, in which they now have a monopoly, on the defeated States at prices which would be monopoly prices were it not for the fear of driving the public to the use of cheaper substitutes,—and which are actually monopoly prices in the case, say, of the Meat Trust, where substitutes are not easily found; and which, in *any* case, are always fixed at that point above the former competitive price level which will give the largest possible profit on the whole amount of capital engaged; following in this the practice of boys at school, where the big boys and bullies will always force an exchange more to their own advantage on the smaller boys, than they can get out of boys of their own age and strength. And the result has been, as we see, that some industries,—as for example the agriculture of the Eastern seaboard States, which was flourishing before facilities of transport brought it into competition with the West,—have been ruined by the inter-State Free Trade of the Union; while others, like the manufactures of some of the Eastern States, have been driven from one State to another as the chances and fortunes of trade-war have determined; and with this further result, that the wealth of the separate States, far from increasing together and rising proportionately in the wealth columns of each, (as they would if supplied from a common reservoir), are seen to rise to portentous heights in some States and to sink to mud-banks and shoals in others; just as they would if each had to depend, as I contend, on the weight and height of its *own* reservoir supply, as represented by its own instruments of production; thus proving conclusively, that the axiom of the Free Traders, that under absolute Free Trade what is best for the world as a whole is best also for each particular nation, area, or part of it,—as expressed by the symbol of a common reservoir—is a false one; and that the true one is that each separate area has its own

special reservoir in its own instruments of production, and that it can no more draw on any outside source of wealth over and above its own private wealth (as represented by its exports) than can any individual trader.

Fortunately, in the case of the different States of the American Union, the victors and the vanquished, the dumpers and the dumpees, the pinchers and the pinched, although they may belong to different States, are all alike citizens of the *same* great nation, with all the collateral advantages of every kind which that political fact involves; but did they belong to *different* nations, none of the advantages of inter-State free trade would exist to console the losers in the industrial and commercial game, or to reconcile them to having their beards thus pulled, like the King in Hamlet, and 'think it jest,' without putting up protective walls to defend themselves. For, that one State forming part of a nation should lose or win from another State forming part of the same nation, is the accepted rule of the game which they started out to play, just as it is with individuals; but it is not the rule of the game which *independent* nations start to play for industrial stakes against each other, any more than it is the rule of the social game to permit the same familiarities or liberties to strangers, as to friends or members of your own family; and to confuse the game, as the Free Traders do, by professing to play in the interests of your own nation, when you are really playing in the interests of the world as a whole, is not only an intellectual stultification, but is a moral obliquity as well. Now the proximate source of the illusion which has led the Free Traders in this connection to imagine that if all the world embraced Free Trade, each nation would be able to draw on some common reservoir of wealth in the world as a whole, over and above the products of its own particular resources and instruments of production, will be found to lie in their first detaching and then confounding the mere dead *products* of industry with the *instruments of production* from which they proceed, and in

keeping their eye fixed on the to-and-fro movement of these products, instead of on the character, stability, strength, and nationality of these instruments of production alone,—an illusion as great as if they imagined that the to-and-fro movements of the piston of a locomotive could be detached from a consideration of the coal with which it is stoked; the products of a bag of tools from the question of to whom they belong; or the general exchange of wheat or eggs in the central exchange market, from the question of whether they were produced at home or abroad. For the difference in the logical conclusion that may be drawn from the facts when this distinction is not observed, is enormous. If once you detach the products from the instruments of production on which they depend, they can be logically represented as all mere lifeless things can, (and indeed as the exports and imports of a nation are by the Free Traders), as capable of being interchanged and moved backwards and forwards indefinitely, like water or sand in a trough, by a slight mechanical tilting of one or the other end; whereas instruments of production being, on the other hand, living things as it were, (inasmuch as they embody living powers of Nature which have their roots in definite places) cannot be rocked from their foundations thus, and shifted about here and there by any merely external or mechanical process of tilting whatever, but when they do begin to move, do not stop until they have conquered you, or you them. It is true that it is by the products,—as the visible symbols and effects of these instruments of production,—that nations conquer or are conquered, as it was by the symbol of the cross which Constantine saw in the sky that he was enabled to conquer his opponent Maxentius at the Milvian bridge; but unless we keep our eye fixed on the powers and instruments of production *behind* these symbols, and especially on whether they belong to ourselves or to other nations, we may easily in the business and bustle of the mart, have our industrial supremacy, under Free Trade, stolen away from us piecemeal in our sleep.

But enough of this for the present, and to proceed. Before we can bring our demonstration of the absurdity of Free Trade as an abstract economic doctrine to a close, we have still to remove one more of the series of veils of illusion within which we must penetrate before we come to the innermost shrine of all. And accordingly I have now to show that when the ordinary Free Trader of the platform and the Press gets there, he will be no better rewarded for his trouble than that Roman Emperor who after the siege of Jerusalem penetrated within the precincts of the Holy of Holies of the Temple to the Ark of the Covenant itself, only to find it empty! Indeed he will be even more disappointed and surprised, for he will find that far from coming to some ultimate scientific rock-principle on which his doctrine can repose in security, he will come down on one of the most discredited delusions in the whole history of human thought,—the delusion of perpetual motion.

But before proceeding to demonstrate this, a word or two is necessary to take our bearings. We have already seen that the ultimate principle on which the ordinary Free Trader reposes when he is making his confession of faith is, that Free Trade, as it is best economically for the world as a whole, inasmuch as it removes all barriers which obstruct the free and natural interchange of commodities between nations, is also *necessarily* best economically for each and every nation in it. But this—although accepted as an ultimate truth by the traditional Free Trader who has been taught it from infancy,—is by no means necessarily true, any more than is the verbal inspiration of the Scripture which was generally accepted as an ultimate truth until within the last few decades. Indeed the academic high priests and professors of the Science of Political Economy have all along felt that this doctrine required some still deeper foundation on which to rest, and from which it would be found to be strictly and logically deducible, if it were ever to lay claim to the dignity and authority of a truly scientific dogma. It may be remembered

that Herbert Spencer was not content with the accepted laws of Nature which are final for most people, inasmuch as he thought them not sufficiently ultimate for the purposes of a World-Philosophy, and that he was not satisfied that he had put the coping-stone on his philosophical edifice until he was able to deduce them also as corollaries, each implicitly contained in, and logically deducible from, what he called the 'Persistence of Force,' as the ultimate truth of all. So, too, the professors of the orthodox Political Economy have justly felt that the ordinary ultimate postulate of the political platform and the Press, namely that the Free Trade which is economically best for the world as a whole is necessarily best for each particular nation in it, was neither solid enough nor ultimate enough for the purposes of a thorough going deductive Science.

And so the problem for them became;—where to find in the background of their science a principle which would insure that the wealth of the world under a Free Trade régime would be distributed *proportionately* over all the nations alike, and which would prevent it from heaping itself up in any one of them at the expense of any one of the rest. however much, or by whatever means, the nation or nations whose superior instruments of production were the primary cause of the addition of wealth to the world, should endeavour to aggrandize themselves by keeping that added wealth to themselves. Or to put it differently;—their problem was to find a natural principle which would automatically prevent any one nation from injuring another under a Free Trade régime, whether that nation were a pure competitor, a friendly exchanger of complementary products, or as is more usual, a mixture of the two combined; and, of course, was precisely the same problem as how to prevent one tradesman with superior powers of buying, superior situation, and superior knowledge and organization of his business, from injuring another, whether he were a rival tradesman in the same street, or a friendly tradesman in a different line of business.

At first sight it would seem rather a difficult problem to solve, but the academical and professorial economists of the orthodox school in the end imagined that they were equal to it, and so were able to announce that any hard-pressed Free Trader who had gone no farther back than the general principle that what was good for the world under Free Trade was good for each nation also, could always appeal to them for a more recondite explanation still, (although one caviare to the general), in support and justification. This esoteric doctrine, like those doctrines of the Brahmins reserved for the elect of their disciples, was and still remains exclusively in the hands of the small knot of economic 'experts,'—University and College Professors mainly,—who a few years ago when the Free Trade controversy was revived, issued their celebrated Manifesto; and is contained in those chapters of their books devoted to the function of Gold and the mechanism of the Foreign Exchanges in their bearings on International Trade.

The critical examination of this doctrine will afford us yet another opportunity of demonstrating that the orthodox Political Economy of the Schools, far from being the highly developed science which its cultivation as a separate specialty would seem to imply, is still, in its great organic outlines, in the crude primitive stage in which it was left by Adam Smith nearly one hundred and fifty years ago. For there is no better evidence of crudity, either in a science or in an art, than the lumping together of two different things under some common generalized category or image, by the obliteration of all differentiation or distinction in the parts; as is seen in the generalized Cosmogony of Genesis, for example; the generalized Physiology and Psychology of the Middle Ages, with their 'vital principle,' 'vital airs,' 'bodily humours,' etc.; the generalized Art of the Assyrians, with the four legs of their animals all on one side of the body, and so on. It is the same with the orthodox Political Economy where, as we have already seen, exports and imports are lumped together and generalized,

as if it made no difference whether the exports were the cause of the imports or the imports of the exports; where the imports again are generalized as if there were no difference between competitive imports and complementary ones; where the economic good of the world as a whole is generalized and confounded with the good of each particular nation in it; where these nations, again, in their exchanges are represented as being fed from some common generalized reservoir of wealth, instead of each from its own; where the very act of exchange itself is generalized as an universal boon and blessing, instead of as a mixed account of profit and loss, of good and bad,—of good to those who profit by it, of bad to the others who are hit, and lose by it; and where Free Trade itself is generalized as being good for all nations at all times and places, instead of only for those which have attained *supremacy* in their own special line, at particular times and places. Indeed the main burden of our criticisms of the orthodox Political Economy up to this point has consisted in little else than in our making good these distinctions and differentiations which are of the very essence of a developed and progressive science; and should it be our good fortune to be able to make further distinctions of this kind throughout the rest of our work, these distinctions will be found in effect to have reconstituted the Science of Political Economy from its foundation, as much so, indeed, as the Science of Astronomy was reconstituted when the Copernican system replaced the Ptolemaic; the affectation of scientific elaboration and precision in which the academic Economists indulge,—with their appeal to mathematical formulæ, the equations of economic curves, and the like ingenuities, which have seemed to justify them in claiming for themselves the authority of 'experts,' but all of which are built up on and around these undigested crudities and generalities as their foundation,—showing rather, like the elaboration of a Japanese fan or an Indian card case, or the scrolls and curves on a curtain or a wall paper, as mere fantastic filagree than as true

science or art. And nowhere will this be better seen than in the doctrine of the academical economists as to the function of Gold and the mechanism of the Foreign Exchanges, to which I now wish to direct the reader's attention.

CHAPTER IX.

FREE TRADE AND PERPETUAL MOTION. ON GOLD AND BANKS.

SOME years ago when a number of independent writers, each of whom had access to one or other of the leading Monthly Reviews, started the recent movement in the direction of Protection by putting the question on a somewhat different basis from formerly,—and supporting the doctrine by a more detailed analysis of the quality, composition, character, and proportions of the trade returns of exports and imports,—one of the most distinguished of the orthodox economists was asked as to what he had to say to an argument of mine published in the *Fortnightly Review*, and which ran to this effect;—that if Free Trade were universal to-morrow, it would not, as both Protectionists and Free Traders at that time believed, be the best for each particular nation, but would only be to the advantage of those nations who were *supreme*, each in its own special line of industry; and that the weaker nations, on the contrary, far from being benefited, would be more quickly wiped out than if each had enclosed itself in a ring fence, protected by tariff walls; in the same way as the weaker combatants would be more quickly routed on a battle-field in the open plain, than if they had to be driven out from behind the moats, trenches, and battlements of walled cities. The distinguished economist in question, my informant told

me, became indignant, and replied contemptuously, 'All nonsense! he does not even see that the mechanism of the Foreign Exchanges puts that all right.' There you have it in a nutshell. Like the perpetual-motion schemer, this economist evidently sincerely believed that if once trade was opened between two or more nations on a basis of absolute freedom from tariff or restriction, the mechanism of the Foreign Exchanges would keep that trade going on for ever unimpaired, whatever befell any one or other of them. That I was not wrong in my interpretation of his meaning, was made evident to me a year or so later when Mr. Chamberlain had brought the question again into the arena of practical politics, and the political world and the Press were aflame with its discussion. Mr. Sidney Webb, a most thoughtful economist, and by no means a doctrinaire of the type of the orthodox school, wrote, I remember, a letter to one of the newspapers with the object of proving this very point, of the power which the mechanism of the foreign exchanges had in perpetually starting afresh the trade between two nations when it began to show signs of languishing. It was directly drawn from his own knowledge and experience, he said, when as a young man he was acting as correspondence clerk for a firm in the City doing business, if I remember rightly, with Belgium. It appears that for some time his firm had not been able to place an order in that country, but were waiting, like boatmen for the tide, in the full assurance that the 'turn of the exchanges' between the two countries would bring what they wanted. The order came in due course, as was anticipated, and the experience was one, he said, which, as it was regularly repeated, he had never forgotten. And in short, the conclusion to which it had led him was the same as that of the other economist I have mentioned,—the conclusion namely, that the trade between different nations, if kept free from tariff barriers, would when once started go on unimpaired indefinitely. In the meantime the tide of controversy in the Press and in the Reviews having

begun to turn decidedly in favour of the Protectionists:—what with their elaborate analysis of statistics, and the proofs these afforded of the relative decline of great Britain's supremacy in many, if not all, of the great industries which had originally made her fortune; what with the shock the public received on the announcement that a large slice of our shipping had been detached by an American syndicate, with all the vague possibilities and menaces that this suggested, as well as the definite evidence it afforded of how easy it is for giant capitals concentrated in a few hands to steal away piecemeal from the smaller and more isolated and dispersed capitalists, by manipulation, intimidation, or unusually advantageous terms, whole blocks and instalments of that fixed capital—or instruments of production—which, as we have seen, is the only permanent wealth-producing asset of a nation;—while the public was inwardly if not outwardly excited by all this, the lists were entered by Mr. Pigou, one of the most thoughtful of the younger generation of orthodox Economists, who fully equipped with all the logic-proof armour and esoteric symbolism of the older professors, started with their approval and as their accredited representative, a series of articles in the 'Pilot' in defence of the abstract doctrine of Free Trade, threatened now on its immediately practical as well as on its speculative side. But he too, after a preliminary pass or two in which he did some good scavenger work for both sides by clearing away some of the grosser errors of the older school of Protectionists who were habitually prejudicing their cause by harping on the excess of imports over exports in the statistical returns, etc., fell back again, like the other professors, on the mechanism of the Foreign Exchanges, and the function of Gold, as his ultimate line of defence against the aggressive arguments of the opponents of Free Trade.

But as he made his argument turn on the power of gold by its passage and re-passage between countries to make the trade between them go on indefinitely after once it had been started,

rather than on the power of the turn of the exchanges to accomplish the same result, I propose to consider his special form of the argument before proceeding to the more general one. He starts out quite fairly by supposing the case of a nation which has greater natural advantages than another in *every* kind of commodity whatever, and then asks what will occur when trade is opened on a Free Trade basis between them. The ordinary man would naturally say that, like a row of tradesmen on one side of a street who could undersell a similar row on the other side, each in his own line—the baker the baker, the shoemaker the shoemaker, and so on,—the producers in the one nation would soon drive those of the other from the field. and that trade would soon cease between them. Not so, says Mr. Pigou, but on the contrary, trade would go on as merrily between them as if they were exchanging on even terms! But how so? asks the astonished reader. By the effect on prices of the gold that is sent across to pay for the goods that are being bought and sold, says Mr. Pigou. For, look you! he says, if one nation starts by being able to undersell the other nation in *every* commodity, the first effect will be that the people of the industrially weaker nation will buy everything from the stronger nation instead of from their own, while the stronger nation will buy nothing from the weaker. The consequence of this will be that the weaker nation will have to empty its public and private treasuries of all the gold it can lay its hands on to pay for the goods, and that when this cargo of gold is emptied on the shores of the stronger nation, it will roll over it like a stream from some great and newly discovered Australian or Californian mine. The prices of all things, in consequence, from a box of matches, a glass of whisky, a cigar, a meal, a suit of clothing, the rent of a house, up and up through every kind and variety of material used or consumed by men, will rise to keep pace with this influx of money,—where sovereigns are as plentiful as shillings were before, and shillings as pence. In the mean-

time in the weaker nation which has been denuded of its money,—and where shillings are now as scarce as sovereigns were before,—prices will have fallen so low that you can pick up for a penny what you had to pay a shilling or two for before. So far so good. And now what will happen next? asks Mr. Pigou in a triumphant tone. Why this, that the stronger nation which has now got possession of all the gold, and where prices in consequence are so high, will at the next turn buy all it wants, not at home where things are at famine prices, but from the other nation where they can be had almost for the picking up. And then what will occur? Simply this, that the excess of gold will all roll back again to the nation whence it came, prices will fall in the one, just as they rose before, and rise again in the other as they fell before. And so the to-and-fro movement of gold backwards and forwards will go on uninterruptedly until the two nations in spite of the advantages of the one in the real cheapness with which it can produce *every* article used by both (for that is the supposition with which he started out) will exchange on even terms. And this consummation once reached, there will be no reason why trade should not then go on between them—for ever! And all this through the magical property possessed by gold of distributing its weight precisely at those points necessary to keep the two sides of the trade-balance even, moving up and down alternately when the heavier side threatens to pull the other permanently down; like a boy standing at the centre of a see-saw, who by throwing his weight on one side or the other can keep the two boys on the ends going up and down as long as his strength holds out; or should one boy be bigger and heavier than the other, can prevent him from weighing the other down and stopping the movement altogether; the only difference being, that while the ability of the boy to continue is limited by his strength, the movement of gold, being mechanical and automatic, will go on indefinitely or for ever. Were we wrong then in saying that here we have a

perpetual-motion scheme as perfect and self-acting in its way as any that ever issued from the brains of the mechanical perpetual-motion schemers of long ago? And while we may be quite willing to allow that it is superficially as plausible as any of these old schemes, have we not reason to suspect that it is likely to be as false as they were, not merely in this or that particular, but in all? This we have now to consider, and at the same time to shew once again how crude and primitive is the orthodox Political Economy which could have lent itself to so puerile an explanation ;—and all due to its having made of itself a narrow academic specialism founded, and still continuing to build (in its leading organic outlines and types of structure at least), on great blocks of undigested and unanalysed generalities thrown off in the infancy of the science by Adam Smith, in his reaction against the old Mercantile System, and continued through John Stuart Mill to our own time; precisely as the numerous existing theological sects started by the Reformation on the break up of the old Catholic Theology of the Middle Ages, still go back to Calvin, or Luther, or Hooker, or some other old fifteenth or sixteenth century divine for their foundations and fundamentals, and instead of throwing them one and all overboard together and beginning afresh on the higher knowledge of to-day, break off only a chip here and there, and one at a time—verbal inspiration, Mosaic Cosmogony, eternal damnation, literal hell-fire, and what not—but still continue refining on the remains of the old blocks, with endless ingenuities of new patterns and scroll-work each in its own kind,—new shades and distinctions in predestination and the 'effectual calling,' new hopes for the damned, adult or infant, new denominations of sinners, and the like,—till we despair of ever getting any rationalised science of theology at all. In other words, the difference between the Orthodox Political Economy and the new science with which we are seeking to replace it, lies not in the fact that the latter proceeds on evolutionary lines, and the former does not: on

the contrary, just as in the animal kingdom there is no type of creature however low or primitive, which when once launched on the world will not go through a parallel course of evolution to every other, tricking its different species out with infinite ingenuity in every variety of form and colour, to fit them for their special environment, whether it belong to the type of the molluscs, the reptiles, the birds, or the mammals; so too is it with systems of thought, where there is no difference in so far as their following the ordinary course of evolution is concerned, but where the one evolves throughout on the basis of a lower and more primitive type than the other. And nowhere is the crudeness of the organic type on which the orthodox Political Economy is constructed more apparent than in this doctrine of the function of Gold and the part it plays in raising or depressing prices in different countries, and in neutralizing by its mere movement from one to the other, the effects which naturally follow in any industry where one individual firm or nation of firms can from natural advantages permanently undersell another. Indeed one might know *à priori* that gold as a measure of value or medium of exchange, could have no more effect on the relations or movements of the *things* exchanged than a shadow on the substance which casts it; and that if sent across from one nation to another in any other capacity, there would be as little chance of its going back again without cause, and by its own initiative, from some magical property inherent in itself, as of a sack of iron or coal.

To begin with, then, we deny that any passage of gold, as such, can, in its function as a medium of exchange for the payment of trade balances, have any permanent effect on the relative prices of any commodity whatever, in any two countries engaged in trade with each other. It may be true that if all the inhabitants of a country suddenly discovered that an island had risen from the sea which could supply them with *everything* cheaper than they could get it at home, they would go on

buying these products and paying for them in gold until there was neither coin left in the country nor an industry left at work, except those of porters, restaurant proprietors, and retailers, etc., to distribute the good things they had got so cheaply ; but to imagine that they could continue to sit there and enjoy this life of cheap lotus-land delights after their last coin had gone, in the belief that those coins would all come rolling back to them again while they slept, and so enable them to repeat the delightful experience indefinitely, would be indeed to postulate a rare simplicity in that shrewd, highly developed product of civilization, the modern commercial mind. It is more reasonable to believe that like children who should come across a cage of lions for the first time, and put their hands through the bars to stroke them as if they were kittens, or men determined to get to Klondike in midwinter who should begin by selling their clothes to pay for the journey, their first experience would be likely to be their last. But the truth of the situation will be better seen if we suppose that there is no gold or money at all in the world, but that all things are directly exchanged by barter. Then it would be apparent that between a country which produced everything cheaper than another country and the less fortunate country, there would be no trade at all, any more than there is at present between Europe and the Arctic Circle. The inhabitants of the stronger industrial nation would naturally do all their exchanges among themselves, as there would be nothing to tempt them to go farther afield to buy things which could only be produced at a greater cost, not at a less, than at home. The weaker nation would also do all its exchanges with its own people, as it could not sell anything to the other nation, which already produced all things cheaper than it was able to do. And the consequence would be, that trade far from going on between these nations for ever, would as we should know and expect, never get started at all! Now the introduction of gold or money instead of barter cannot possibly make any difference. As a mere commodity

for purposes of luxury or adornment, it is by our hypothesis already more cheaply produced in the stronger industrial nation than in the weaker, just as iron or coal is, and so there would be no point in opening up trade in it, for the same reasons as those just given; while as a mere medium of exchange it can have no effect either, inasmuch as it is then, like a railway ticket, only a token, and whether it be gold, or silver, or copper, that is used, a large gold coin or a small one, will make no difference whatever except as a matter of convenience. On the other hand, if gold is wanted to hoard as a provision against the future, then it becomes again a mere commodity like any other, like, for example, the diamonds and precious stones in which, on account of their *permanent* value, or the general belief in their permanent value, the wealth of so many Eastern princes is invested; and although gold, like a world Emperor standing in the midst of the local kings owning his sway, has a higher rank as a commodity than any other on account of the relative stability and permanence as a wealth-embodying token which its accepted recognition by all men everywhere and at all times gives it; still, there is no more reason why, *as a commodity*, its purchase or sale (and its movement in consequence from one country to another) should affect the prices of other things, as of coal or iron or corn, than a sale of diamonds or jewels, or of corn or iron or coal; nor why it alone of things should have the magical property of automatically passing backwards and forwards between nations, alternately raising the prices of all things and then depressing them, like the boy on the centre of our see-saw. For its movements as a commodity have not altered anything else that could by any possibility raise or depress prices; they do not lessen the cost of producing anything so as to make that thing cheaper in the market,—as a new and better machine or process would do,—nor does the gold itself that passes find its way as such into the pockets of any class of persons through the legitimate competition of industry, whether of masters or men;

it does not make employers give their workmen higher wages, nor does it give the employers themselves higher profits, and therefore it does not create the greater demand in proportion to supply which is necessary before prices can rise. It does not act, for example, as an unusually plentiful harvest in all the great corn-producing countries does, which by making food cheaper for the great masses of a population leaves them more to spend on all other things, and so makes trade brisk all round; for on the hypothesis with which Mr. Pigou starts out, the gold which passes to the one country from the other, is not, as in the case of the harvest, due to a *fresh* supply of gold over and above that in the countries before. Nothing having been altered, therefore, in the organic relations of the industries of the two countries, which would in any way alter the scale of prices in either, the mere passage of gold from one to the other would have no more effect on their respective price lists than the movements of a fly over the skin of a patient would have on the condition of the vital organs beneath. For this, it would be necessary that some great new gold mine or mines should be discovered which would flood the whole world with their products, and so, like an unusually abundant harvest, would make gold as plentiful as, say, silver is now. But even then, be it observed, it would have little effect on prices until it found its way into the pockets of the great masses of men, as was the case with the original Californian and Australian mines, where the men themselves picked up the gold from the ground with the simple utensils used for washing it out; and by this addition to what might be called their wages, created so great a demand for every article within their reach that prices rose to unprecedented heights,—first in the vicinity of the mines, and then, as the gold was passed on in enlarging circles, wider and ever wider, until the whole world felt the effects of it. It raised prices in the same way as if each man in the world were presented with an extra coin for every one owing to him when his salary, or wages, or profits,

fell due; but as it would operate equally on the weaker of Mr. Pigou's two nations as on the stronger, it would be as broad as it was long; and nothing would be altered in any way from what it was before. And if before the inundation of gold one of these nations was so superior to the other in everything that there was no reason why they should trade at all, so would it be after it. But from the moment that gold required the use of expensive machinery to extract it from the deep-lying quartz, it went, not into the hands of the workmen (who would have raised prices by the abundance of it in their possession) but into the hands of the capitalists, who either put it to their credit accounts at the bank, or used it as additional capital for the further working of their business; but who, in either event, would no more have dreamed of increasing the wages of the miners by reason of their magnificent profits, than the wealthy coffee planters of India or Ceylon would dream of increasing the wages of their coolies. And, the consequence has been, as we see, that although millions of fresh gold are thrown every year on the market, it is questionable whether it alters prices a jot. Indeed I am told on the authority of the great bankers and the officials of the Mint, that the world could absorb at least one hundred millions of newly mined gold every year before prices would be affected by it. The excess would be distributed among the banks in amounts varying according to the necessities of their business, or be hoarded by peasants and despots, or used up as a commodity for purposes of luxury or ornament.

And now we have to see what would become of that part of it deposited in banks. It would be used by the proprietors of the banks primarily to strengthen their own credit by adding to their reserves where these were deficient, or to add to these reserves, in order to meet the legitimate demands for temporary money accommodation in all progressive industrial communities. But given that the bank reserves were sufficient already, the mere emptying of this excess of gold into their

vaults, or the taking of it out again, would have little more effect on general prices,—so long, that is to say, as it did not exceed the amount estimated above,—than if it were so many sacks of coal. The only effect would be that discount rates on loans would be easier than usual for the time being, and until the temporary excess above requirements had been passed on and distributed to other nations where gold was more in demand, and where it yielded more profit to the banks than its retention at home would do. For banks are essentially private institutions, in the same way as the Stock Exchange and the business of money lending are private institutions, and to imagine that because they have a temporary excess of the commodity, gold, in which they deal in their vaults, this is going to alter *appreciably* the general price level of bread, meat, coals, calico, and all other things, merely because it is the medium of exchange, is as absurd as to imagine that an excess of one or other of these things is going to alter appreciably the general value of gold. But to imagine, as Mr. Pigou and the orthodox Political Economists do, that when gold is in excess in one nation owing to its *industrial* supremacy over another in all things, (and not merely owing to the discovery of new mines), it will, when getting rid of its excess of gold send it back again to that other nation—which by the hypothesis has now lost to its superior the business which can alone create a demand for more gold,—is the supremest absurdity of all.

But why, we may ask, should not an excess of gold in the banks find its way into the hands of the general body of consumers of a nation, and so raise prices all round, instead of being sent abroad to other nations? The answer is as before, banks are private institutions, and it is no more the way of banks in ordinary humdrum times to lend money except on *actually existing* security, than it is of private money lenders. To begin with, they do not lend money to the wage earners, who form the bulk of a nation, at all, (that is the function rather of the pawnbroker), and when they lend it to

the wealthier class of consumers as such, it is only on actually existing securities—bonds, stocks, or what not,—which can be turned into gold again when necessary at a moment's notice; but as this money lent to the consumer at the beginning of the year, say, must be repaid out of his income at the end of it, nothing so far has occurred which can permanently raise prices by increasing the demand for commodities. On the other hand, when money is lent by banks as an accommodation to capitalists actually engaged in productive industrial undertakings (and this is a bank's normal function), again not a sovereign or bank note is lent except on quickly realizable *existing* securities, or by discounting bills believed by the bank to be drawn on actual business transactions, whether on fixed capital in working operation, the current 'turnover' of merchants and retailers, or what not; and more important still, the money advanced in all cases is in ordinary times meted out strictly in proportion to the business doing, or believed to be doing, by the persons who receive the loan. So far then nothing again has occurred, so far as the banks are concerned, which will occasion a greater demand for any of the commodities in which these borrowers deal (and so will tend to raise prices) than the already existing demands of the public. And therefore as the banks in their advances keep pace only with the genuinely industrial demands of the public, and do not precede them, it follows that even were their vaults stacked to the ceilings with ingots and coins, not a coin of it would leave these vaults in the ordinary way of business, except on the good faith of *definitely existing* business transactions, nor an additional coin of it except by an addition to these transactions. And the conclusion follows that if prices had to wait to rise until the bankers took to scattering their gold and bank notes abroad on purely speculative credits as a means of getting rid of the excess of it in their vaults, they never would rise at all. And this gives us our first definite law or principle, namely that just as the population in the present day increases

not from the miscellaneous haphazard capture of temporarily appropriated females, but from the regulated entry of children into life through the institution of marriage and the household; so in the present capitalist form of industry, which can only be mediated through the institution of banks, a rise or fall of prices does not depend primarily on the haphazard amount of gold in their vaults at all, but on the contrary, the gold in use as a medium of exchange will depend on the amount of it needed to effect the exchanges arising out of an increased or diminished volume of industrial operations; and the prices of commodities, in consequence, will be determined both primarily and ultimately by the relation of demand to supply, and of supply to demand, *among the commodities* themselves. Now when this is once seen, it will be seen also that gold as a medium of exchange is like food; for just as although a certain minimum of fat-producing food is necessary to the body, still the amount of the fat does not therefore vary in proportion to the amount of the food, but depends on the amount of it utilisable by the constitutional tendency of the individual organism to fatness, or leanness, or a medium condition, respectively; all excess being thrown off as surplusage and useless excreta; so too is it with gold as a medium of exchange. For although a certain amount of it is a necessary and ultimate element in the determination of prices, still the variation in prices does not depend primarily on the amount of gold, but the amount of gold used will depend on the amount of business done in the supply and demand of the commodities themselves; the rise or fall of prices being the direct effect of the business actually transacted, and not of the supply of gold. And hence the argument on which Mr. Pigou and the orthodox economists rely as their ultimate weapon in defence of Free Trade, namely the agency of gold sliding from the back of one nation on to that of another, and making a perpetual inclined plane for itself, by tilting first one end and then the other, and so, by its own weight, raising and lowering the prices

of the same commodities in each nation alternately, is a dream.

The above, as I have said, has reference only to ordinary everyday business and trade. But before we can bring the full scope of our doctrine into clearness and unity, we must refer to the part played by Gold and the Banks in those great inflations and contractions to which trade is periodically liable, and which characterise what are known as times of booming and of panic respectively.

These periods of abnormal exaltation or depression differ from the normal course of trade in ordinary times in this,—that whereas in ordinary times the money advanced by the banks is in connection with the future extensions of those businesses which have *already* their firm roots in the soil of the present, and so have in themselves a guarantee for its security; the money advanced in times of inflation, on the contrary, is in connection with business enterprises which are newly sprung on the world, and whose *future* success or failure, in consequence, is entirely a matter of speculation which only the unknown future can determine. But although this introduces a fresh complication into our subject matter, it will be found on analysis, not to seriously invalidate the general conclusion so far reached, namely that the relative prices ruling among nations at any given time depend on the amount of actual industrial transactions done or being done at the time between them, and not on the amount of gold that is employed in negotiating these transactions;—always excepting the slight turn of the Foreign Exchanges on which we will concentrate in our next chapter.

I have purposely excluded such gambling speculations in futures, as wheat and cotton 'corners,' etc., as irrelevant to our issue, inasmuch as although they may affect prices profoundly, they do not concern the problem in hand, which is the relation of gold to prices in bonâ fide industrial operations; and are therefore no more part of the subject-

matter of political economy than is any other form of mere gambling. It is true that in all industrial operations whatever, depending on future and unknown contingencies, there must always be an element of speculation if the business of the world is to be done at all; but the difference between the speculations of a wheat or cotton 'corner' on the returns of a crop already existing, and the necessary speculation in, say, the opening-up of a new mine, the reclamation of a piece of waste land, the projection of railways or canals in new countries, etc., is this, that the former is pure gambling on the results of an *already completed* industrial operation; the other is a necessary trade risk, which must be taken on the inauguration of every new, and therefore uncertain, industrial enterprise. Now these new industrial enterprises in ordinary times have usually to depend on the general public to finance them, but in 'booming' times when all business men are buoyed up with hope and expectancy, the bankers themselves become more or less infected and hypnotised; and, carried away by the tide, will often set afloat great balloons of paper credit which are out of all reasonable proportion to the gold reserves in their vaults. Prices will then, of course, rise more or less all round, just as they would if each working man were given two sovereigns to spend instead of one,—but why? Not because of any increase of gold reserves which would justify it, but because of the *actual industrial demands* which the credits call forth and set in motion. Capitalists in many different spheres of industry give more orders to each other for all kinds of raw material, machinery, building operations, etc., which in turn give employment to more men; and all together, like an army which has been suddenly recruited in numbers, and has to supply itself with what it wants as it goes along, make so great a demand at short notice on existing sources of supply that prices for the time rise all round. That the rise of prices in these cases is due to the actual increase of *industrial* demands is seen when these new industrial under-

takings—sufficient time having been given them,—fail to realise the bright hopes with which they started out, and cannot pay in the products they turn out for the expenses incurred in developing them—in the purchase of land, the erecting of buildings, the stocking with machinery, the interest on loans, the wages of workmen, and what not. Then bankruptcies begin, credits falling due are not redeemed, further credit advances are stopped, the whole or part of the extra industrial army of capitalists, masters, and workmen, are disbanded, and their profits, wages, and salaries, come to an end; and with them the demands for all those kinds of commodities, services, and materials, which attended their buoyant march on the road to fortune. Prices then doubly fall; on the one hand from supply having by this time come up to the increased demand, and on the other from that demand having now suddenly ceased; and so left a congested supply with nothing to carry it off. But this fall of prices is essentially due, it is to be observed, to the falling off in the demand for actual commodities, rather than to the collapse of credit, or to any appreciable difference in the ordinary amount of gold reserves in the coffers of the banks. For although the restriction of credit *attends* the fall of prices and is the signal for their fall,—and indeed often *precipitates* that fall, when a little longer extension of credit might have prevented it,—it is nevertheless not the true scientific cause of the fall, any more than the destruction of the Bastille was the real cause of the French Revolution, although in a way it heralded, precipitated, generalized, and extended it. In other words, it is the failure of the new enterprises themselves and its effects on the supply and demand of actual industrial commodities, to which the fall of prices is in strictness to be referred, and not to the restriction of the credits; as is evident from the fact that until panic sets in from the actual failure of the new enterprises to supply the goods, or of the public to buy them when produced, credit advances continue to be made by the banks. The only

sense in which credits can be said to be the cause of a rise or fall of price, so far as the Science of Political Economy is concerned, is in their normal function as part of the legitimate organized machinery of production, consumption, and exchange, where they save time (the soul of wealth) by lubricating the wheels of the industrial machine and preventing its jolting, and thus insure that the real commodities themselves will be transferred from seller to buyer with the least delay.

From all of which I think we are justified in concluding that whether it be current or future business, old or new industrial undertakings, it is only the actual business transactions,—the actual purchase and sale of actual commodities—following the ordinary laws of supply and demand, which are the true scientific cause of the rise and fall of prices, and, moreover, of the degree of that rise and fall; and not the amount of the circulating medium in use,—whether it be gold or bimetallic,—or the note issues founded on it, which unless they bear a well understood and recognised proportion to the gold, and are kept well in hand in discounting bills, become the occasion of booms and panics, and the rise and fall of prices which attend them, and which are therefore only a passing, gambling, bubble, the result of illegitimate hopes and fears, but which can have no place in a science of political economy, as such.

And thus we see—to come back to the point we started to demonstrate—that from every point of view the gold of the world, far from regulating the prices of commodities in different nations according to the amount of it temporarily carried on the back of each at any given point of time, and mechanically and automatically sliding across between them as on an inclined plane, raising and depressing prices at it goes, and by its backward and forward movement keeping the trade between any two nations, once started, going on for ever, (as Mr. Pigou and the orthodox Political Economists believe), when that trade would otherwise have ceased altogether from

the want of the motive to trade which the superiority of one nation over another in *everything* would naturally cause; the amount of gold, I say, in any country, far from determining the general price level of commodities in that country, except to that strictly limited and insignificant extent caused by the temporary turn of the Foreign Exchanges, is, on the contrary, itself determined by the actual business transactions of the country, which raise or lower the price of commodities on the ordinary laws of supply and demand; precisely as an animal produces or secretes only as much wool, or oil, or fat, for itself, as is required for its warmth and comfort in adaptation to the environment in which it is placed, — and no more. The mistake made by Mr. Pigou and the orthodox Economists whose mouthpiece he is, in this matter of the defence of Free Trade by means of the function of gold, is that they do not see in the first place that it is the amount of gold *in the world in general* actually functioning as a medium of exchange, that fixes the common denominator of prices, as it were, in each and every nation alike,—inasmuch as it is the only measure of value that is uniform and recognised by all,—and so determines through the medium of prices the *relative* industrial strengths of them all; and not, as they believe, the mere passage backward and forward of gold between any two or more of them without reference to this general substratum of gold common to them all.

In the second place, they do not see that with this common denominator once fixed by the consensus of the world, and the relative productive industrial capacities of the different nations ranged along it as numerators, it follows that if once one nation has, as Mr. Pigou's hypothesis assumes, an advantage over another in everything, so that, for example, it capacity can be represented, say, by the fraction $\frac{20}{100}$, and the other only by $\frac{15}{100}$, this differential advantage of the one nation over the other cannot be reversed by gods or men, except on the sole condition that the inferior nation makes itself in turn by some godsend

or windfall (as the discovery of a gold, or diamond, or coal mine, or what not within its territory), the superior of the other; so that, whereas the assets formerly stood at $\frac{15}{100}$ they will now stand at, say, $\frac{25}{100}$. But to imagine that it can all be put right by passing gold or any other medium of exchange whatever over the two nations. like a universal smoothing iron, to level their industrial inequalities (by the supposed pressure which its mere quantity exercises on the two nations through its alteration of their price levels) is to confound the difference between a price which is low because it is the outcome of a *superior* soil, machine, or other instrument of production, and a price which is low because the instruments of production are relatively so poor that when once beaten from the field, their products, like a bankrupt's stock, can be picked up 'for a song.' And further, to imagine that when once this nation's bankrupt stock has been sold off, as doubtless it will be 'at a bargain,' the dead nation itself will come up smiling again to enter the lists of competitive international trade as if it were alive, is to outrage all reason; and is indeed to palm off again on the science of Political Economy that perpetual-motion scheming which in the science of Mechanics has long since been banished from the world.

The above, then, is our reply to Mr. Pigou and the orthodox Political Economists as to the function of gold, and the part it plays in the perpetual-motion scheme through which, and by means of which, they would compel the trade between nations once begun to go on forever, whatever chasm there might be between their relative capacities for the production of every species of wealth—a scheme which on a rigid and radical analysis of all the main factors concerned, turns out, as we have seen, to be as fallacious as on the face of it it is absurd, and the realization of which is as hopeless as to try and keep the pendulum of a clock going by merely starting it afresh after its springs or weights have run down. Being an absolute reversal of the position occupied by the orthodox Economy,

our analysis will, I venture to hope, destroy the last and topmost beam from which the defence of the doctrine of Free Trade as an absolute principle, true for all nations at all times, hangs suspended; for if that beam prove unsound, this doctrine falls by its own weight: and the trade between the two nations, one of which by Mr. Pigou's hypothesis was superior to the other industrially in *everything*, far from going on forever, must come to a dead stop after the first pass or two, or more strictly, perhaps, would never get started at all. And when we have analysed the mechanism of the Foreign Exchanges in our next chapter, we shall see that the perpetual continuance of Trade between nations—by means of Gold and the Foreign Exchanges,—when once started, amounts in principle only to the perpetual swing to-and-fro of the surface waves of the sea, but that the deep tidal drift of trade away from one nation and onward to another which is going on all the while unseen, depends on the *relative strengths of their respective instruments of production*,—and on nothing else.

CHAPTER X.

FREE TRADE AND PERPETUAL MOTION—(Continued).

THE FOREIGN EXCHANGES.

BUT before we can exhibit the way in which the orthodox academical economists utilize the mechanism of the Foreign Exchanges to support the perpetual-motion scheme which is so necessary for their defence of Free Trade, it is expedient that we should close up the back door of escape which they have left open for themselves, and which will to a certain extent require a somewhat different set of considerations from those advanced in the preceding chapter. So far we have only answered their general challenge to show cause why, even if one nation is the superior of another in the cheapness with which it can produce any and every commodity of trade, that trade should still not go on indefinitely by the effect on prices of the mere passage of gold between them. But now we have to deal not with this general doctrine, but with the modified form given to it by Stuart Mill, namely as to what will happen when one nation has the advantage over another in the production of every commodity, but when that advantage is more marked in the case of certain classes of commodities than of others. And as the solution he gave has been universally accepted by the orthodox economists since his time, and has been brought out afresh by Mr. Pigou as a

weapon in the Free Trade controversy, we must concentrate attention on it for a moment before passing on to our consideration of the mechanism of the Foreign Exchanges. Now this modified statement of the doctrine may be justified on the ground that it is more nearly in accordance with the actual facts of the productive capabilities of different nations; for there is scarcely a nation which has not some industry or industries in which it falls *less* far behind the industries of the foreign competitor than it does in others; or to put it more definitely, although one nation may beat another in everything, in some industries it may have, say, 20 per cent., in others 10 per cent., and in others, again, only 3, or 2, or 1 per cent. margin of superiority. But this modification, I contend, only complicates the problem without altering its essential principle; and has the effect only of first enmeshing the minds of the economists themselves in a network of logical subtleties and fallacies, and then of doing the same for their readers. For the object of their demonstration, I need scarcely say, is the same as we saw in the last chapter, namely to get that principle of perpetual to-and-fro movement which is so essential to them in the last resort when they are very hard pressed in their defence of Free Trade. It is necessary, therefore, to close this door of escape before we can proceed further. Now the argument of the Free Traders in this modified form of their doctrine is quite simple, and runs to this effect;—that where a nation is superior to another in everything, but in different degrees in different commodities, it will pay it better to put the bulk of its capital into those concerns which give it the highest rate of profit per unit on the capital and labour employed, and to leave the rest to the inferior nation to produce, than it would to do all for itself, inasmuch as in this way it "diverts," as Mr. Pigou says, "its capital and labour from a less to a more advantageous occupation." And as before, as Mr. Pigou also avers, it is the shipments of gold backwards and forwards which "serve to

bring price levels into conformity with this fundamental circumstance of international exchange," and so make the trade between the two nations when once started go on indefinitely and without end. Now of this nothing more need be said than that its very statement involves two fundamental illusions which when pointed out will make all further discussion of it superfluous.

The first illusion is the assumption that the trade between nations is transacted by these nations themselves as units or wholes, instead of by particular individuals in each; the second is the old assumption that the quantity of capital in each nation is so fixed and inelastic that if it is to be concentrated in certain highly profitable industries, it must to that extent be *withdrawn* wholly or in part from the less profitable ones.

Now as regards the first assumption, it may seem a harmless truism to say that when we speak of the trade, for example, between Manchester and London, we do not mean between these cities themselves as entities, but between a certain indefinite number of individuals—merchants, manufacturers, retailers, or what not,—in Manchester, who buy or sell goods to certain other individuals in London. But it is not harmless when we represent International Trade as a trade between the nations themselves as units, instead of being, as it is, simply a trade between certain isolated individuals in each nation who are never two days the same, either in their persons or in the character and amounts of their purchases and sales. For by the image it unconsciously leaves in the mind (and which will be used as a premiss and presupposition for further abstract reasoning), we are apt unless we are wary to be led into error at the very start. We shall be led to imagine that International Trade is arranged by a number of men sitting like a council around a green baize table, and representing the nations as *wholes*, and deciding, as the Free Trade argument tacitly assumes, which industries shall be given over to the foreigner, and which each nation shall keep to itself; whereas the truth

is that it is merely a matter of a number of independent unrelated individuals, or groups of individuals, who know little or nothing of what others are doing or intend to do, but who sitting alone in their offices and scanning the trade lists of prices in different countries as they come in, decide, one to give an order to this country, another to that, one to open a manufactory here, another to start a chemical process there, and another again, to open up a mine at some other place, and so on, wherever they see, or think they see, an opening with a fair chance or a certainty of profit. Indeed it is precisely because the trade between nations is a purely *individual* affair, where each trader is left free to follow his own judgment or inclination without outside pressure, that we have all that rushing into and over-crowding of even the most legitimate businesses which is so characteristic of modern trade,—the overbuilding of mills and factories, machine-works, etc., together with all the ups and downs of stock-exchange speculation, over capitalization, gluts, crises, big fortunes, and wide-spread ruin. Whereas, were the trade of a whole nation organized by that nation, as a definite organic unit, under a central representative body,—in the same way as a great American Trust is organized over the whole field of its operations,—no such fluctuations could or would be permitted to occur; and the orthodox economists being under this illusion may well believe that the nation could, if it wished, retain the lion's share of its trade for itself and throw the leavings to its competitor; and so keep the trade between the two, once started, going on without end. But if we bear in mind that international trade, like the home trade between London and Manchester, is merely the sum-total of a number of trading transactions effected by a number of isolated unrelated individuals, we shall see that there is one thing that these traders will never consent to do, and that is to let the foreigner keep *any* industry whatever in which their own instruments of production are superior (and this Mr. Pigou's hypothesis grants to start with); no, not if

they drained the rival nation to its last farthing, and the trade between them ceased altogether. And that simply because a nation trading with another nation is *not* a council of men sitting around a table and deciding which industries shall be pushed and which suppressed, but a number of unrelated individuals merely, each of whom will try and place an order wherever in the world he sees his way to doing it with a profit, however small that profit may be when compared with the profits of other traders in his own nation, in other lines of business enterprise.

Nor will it be found,—as the hypothesis of the orthodox economists assumes,—that the capital of a nation is so rigid and inelastic a thing, that traders will be prevented, for the want of it, from going into the less profitable lines of business as against the foreign competitor, but will leave them to him on the ground that so much capital has been invested in the more profitable trades that there is not enough left to work the less profitable ones as well. For this doctrine is a relic of the old days of the 'wages fund' theory—which indeed was an offshoot from it—but instead of being buried in the same grave with that theory, it still remains to work havoc with all conclusions of the orthodox Political Economy. For at the present day no business need be starved or given over to the foreigner for want of capital, provided always a profit from the investment is a *certainty* (and this Mr. Pigou's hypothesis assumes); if it does starve it is because it is too speculative, shady, or uncertain. It will be time, then, to discuss the effects of nations trading with each other as nations, and not as individuals, when Socialism shall have nationalized the instruments of production in each country, but not before; and even then, I apprehend that far from the nation that is superior in every department of competitive industry continuing to trade with the inferior for ever, as the economists imagine, or indeed leaving it anything to trade with, it will, like the American Trusts in the case of private industry, give the inferior nation

a very short shrift. For it cannot be too often repeated that it is only in the *complementary* products of different nations that trade can be kept up between them, never in the *competitive* ones, which must fight until one or other is extinguished; and the very essence of a complementary trade between nations is not, as the hypothesis with which we are dealing assumes, that one is superior to the other in everything, but only in some things, while inferior in others; and it is the exchange of these complementary products which must keep the trade between the two nations going on indefinitely from age to age. But the orthodox economists by lumping these two opposite things,—complementary and competitive products,—together, as if they were one and the same, have again exhibited that want of analysis and differentiation which characterizes the infancy of a science, rather than the maturity to which the academical economists, in speaking of themselves as 'a committee of experts,' lay claim. 'He shall be a god to me,' says Plato, 'who can accurately discriminate and define.' And if we ask the reason why the orthodox economists have failed in this analysis, we shall find it in the fact that they have yoked their destiny, as I have shown, to a book, professedly scientific, written over a hundred years ago; and, like Mussulmen expositors of the Koran, have continued to refine on that book ever since in endless subtleties, instead of throwing the whole of this old cargo overboard and beginning anew. For now that Evolution is the watchword of all thought whatever, the age of a scientific author in any branch, except perhaps in Theology or Metaphysics, no longer carries with it the hall-mark of authority, but is rather a presumption of his incompleteness and crudity.

I have not, of course, forgotten that with Mr. Pigou and the orthodox economists, the agency by which, in their perpetual-motion scheme, the trade of two countries, once started, will be kept going on indefinitely, is the passage backwards and forwards of gold affecting the prices of those commodities in

which the one nation has a small advantage over the other; but as this brings us back to the effect of the passage of gold in general on prices discussed in the last chaper, my reply is practically the same as that given in that chapter. For if once you allow Mr. Pigou and the orthodox economists to thrust the relative differences in capacity of the *instruments of production* of two nations into the background, and to ignore the difference between the cheapness caused by the possession of a superior instrument of production, and that which comes from defeat, and from the selling of 'remainders' like a bankrupt's stock, they destroy the living soul of the whole problem; and it is then easy for them to represent the backward and forward passage of gold between nations—by a little tilting of the exchanges at each end alternately, as of dead water in a trough, —as sufficient to keep the currents of trade moving backwards and forwards between them for ever. But to imagine that any conclusion drawn by thus emasculating the problem of its vital elements can possibly have any value, is as absurd as to imagine that the two rows of trees on opposite sides of a street will still continue to wave their green tops across to each other when the roots of one row have been poisoned, or their bark has been ringed; or to imagine that the business of the Stock Exchange could continue indefinitely by the mere nods exchanged by its 'bulls' and 'bears' with each other across the floor, whether the brokers who exchanged them, or their clients, were men of substance with assets to meet their liabilities, or not. But the strange thing is, why the orthodox economists should have a tendency to believe that because trade is free between any two nations picked out haphazard, there should *necessarily* be any trade between them at all; or if so, why when once started it must necessarily go on for ever, especially when one is already superior to the other in the production of any and every commodity; and most strange of all, why this perpetual motion should be accomplished by means of the passage of gold between them—a mere medium of exchange in this connection,

a symbol and shadow only, as much so, indeed, as bank notes or credits—and not of the vital factors of international trade, which are real commodities, real instruments of production, and the real relations which they establish between each other. Do they imagine that if a country were snowed under long enough, until its manufactures and other instruments of production were practically ruined and it had become another Greenland, or if its soil were turned into a sand bed, like another Sahara, that its trade could still be kept going by the effect on relative prices of the passing of gold backwards and forwards between it and other nations, just as if nothing had happened to its instruments of production? When I ventured to assert in an article in the *Fortnightly Review* on the Free Trade controversy, that if England were to lose her supremacy in manufactures and the shipping trade to-morrow, there was no reason why, if she still persisted in keeping her ports freely open to her trade conquerors, she should not return in a little while to her sheepwalks again as in the Middle Ages, Mr. Pigou, with his perpetual-motion scheme in the background of his mind, scouted the idea as inconceivable under *any* circumstances. The passage of gold and the mechanism of the Foreign Exchanges would, according to him and Mr. Sydney Webb, have the same effect on trade as the gold on the 'wappened widow' in Shakespeare's 'Timon of Athens,' and would 'embalm and spice it to the April day again!' If it did, I conceive that the revivified trade would be rather a passage of goods for the relief of distress, sent out as a charity, than a bona-fide commercial enterprise. But why, I ask, this anxiety of the Free Traders to prove that if once Free Trade is established among all the nations of the world, it will irrigate them all alike, whatever may befall? Obviously it is to support that axiom of the *common* reservoir of wealth in the world, on which the whole Free Trade theory hangs suspended, and which if no flood gates in the shape of hostile tariffs are erected anywhere, must, according to this theory, water all nations alike. And

yet if they will keep in mind the distinction I have drawn between competitive and complementary products, it will, I think, be apparent that while the trade between nations in complementary products,—as of the corn of one country for the manufactures of another, its fruits or wines for coal or tobacco or what not,—may go on indefinitely, there is no more reason that a trade in competitive products (and especially when it is admitted that one nation is superior to another in *everything*) should go on indefinitely, or indeed go on at all, than that there should be a continuous interchange of amenities between rival stags,—in the way of sharing the herd between them, as the economists propose to do with the trade of rival nations,—when once the one has defeated the other in a pitched battle.

And with this we may now pass on to the consideration of the mechanism of the Foreign Exchanges, on which, along with the passage of gold, the orthodox economists alternately rely in defence of their primal illusion that if the trade between nations were free, it would not only be for the benefit of the world as a whole, but of each and every nation in it. For this mechanism of the foreign exchanges is believed by them to have the same magical efficacy which they attach to the backward and forward passage of gold between nations, and acts in the same way on prices; namely, by throwing the weight alternately from one nation to another, like our boy on the middle of the see-saw, keeping the prices at each end going up and down alternately, and so the trade going on between them indefinitely or for ever.

Now the mechanism of the Foreign Exchanges is a simple enough matter in principle, although rather complicated when you have to describe it; but as all this has been done admirably and exhaustively by Mill, Goschen, and the other leading economists, I shall refer the reader to these writers for the details of the process, and concentrate only on the practical conclusions which they have founded on it. The essence of the process may be briefly and roughly put as follows;—If the

traders, say in England, send a greater quantity of goods, as measured in gold, to Belgium, than the Belgian traders are sending to England, the balance due in gold on the aggregate of the transactions, when like bank cheques they are written off against each other, must be in favour of England. But as the Belgian traders who owe this balance will find it more troublesome and costly to ship the gold to England than to send a draft or bill of exchange for it, they are willing to pay a trifle more for the goods they buy, to anyone who will take the risk and trouble of sending the gold, and give them a bill of exchange instead. This function is performed for them by the bill brokers, who will take all the risk, and charge the traders little more for their services than the expense of sending the gold itself, plus their commission. The effect of it, in brief, will be this, that the Belgian traders will have to pay, say, £101 for every £100 worth of goods which they buy from the English traders, so long as the exchange stands at that ratio, while the English traders, on the contrary, will only have to pay £99, say, for every £100 worth of goods they buy from Belgium; and the question we now have to answer is what effect this 'turn of the exchanges,' as it is called, will have on the trade between England and Belgium. Obviously, that English dealers if they wish to buy an article that is valued at, say, £100 both in England and in Belgium, will give their order for it to the Belgian manufacturer, inasmuch as by taking advantage of this turn of the exchanges they will only have to pay £99 for it. But should the turn of the exchanges between England and Belgium be reversed the following month, say, then the Belgian dealers in turn will give their orders to the English manufacturer, inasmuch as they will get the article in England for £99 instead of the £100 which they would have to pay for it at home. Clearly then, in all those competitive articles or products which stand at nearly the *same natural level* of price in both countries, and where the turn of the exchanges alone can give to either the small advantage it has over the

other, a trade between the two countries might indeed go on backwards and forwards for ever, as rival businesses might do where one has the advantage of the incoming and the other of the outgoing tide. But two other things are also equally clear; the first is, that it is only when the instruments of production of the two nations, in the case of any particular commodity, are nearly *equal in power*, that the one can get this differential advantage over the other through the turn of the exchanges; the second is, that this differential advantage at most can never be more than the trifling difference of the bill-brokers' commission, and the risk and expense of sending the gold itself, over and above the expense of sending a bill of exchange. This latter, the orthodox Economists and Free Traders themselves admit, but they have ignored or forgotten the former, and left it out of their calculation; and hence their argument has no more validity than it would have in the case of a race between two horses. If the horses were so nearly equal in their powers of running that a small hurdle placed before one would give the victory to the other, they might go on running indefinitely without the one beating the other from the field. But if, on the contrary, one was so superior to the other in its racing powers that it could be handicapped with the hurdle, and still beat the other, the racing matches between them would come to an end. It is the same with International Trade. If one nation is nearly equal to another in its powers of production of any given commodity, the small hurdle of the foreign exchanges may suffice to keep trade going on indefinitely between them in that commodity, but if the one is so superior to the other that it can take the hurdle and still beat the other in cheapness, trade between them in that commodity must cease; and if, (as Mr. Pigou's hypothesis assumes), the one is superior to the other in the production of *all* commodities, all trade between them must cease, just as the trade of the world with Greenland is practically non-extant; and no hocus-pocus, either

of the passage of gold between one and the other, or of the turn of the exchanges between them, raising prices in the one and depressing them in the other, will avail to stave off—beyond the pass or two required to test their relative strengths, or to sell off the bankrupt stocks,—the inevitable end. With all complementary products, on the contrary,—as distinct from competitive,—it is quite different as we have seen: for with them international trade can be depended on to continue backwards and forwards (as long as any of the complementary product is left) for an indefinite time,—as is seen, for example, in the trade in furs with the Hudson's Bay Company. And there can be no doubt, I think, that it is to the fact that the orthodox Economists have not separated out these complementary products from the competitive ones before they started on their quixotic enterprise of demonstrating to us what stupendous effects on international trade the passage of gold and the turn of the Foreign Exchanges will have, that their fallacies on this important problem are due.

From the above considerations it will, I think, now be evident that the stronghold on which the orthodox economists have been most accustomed to rely in their defence of Free Trade,—and in proof of their doctrine that as it would increase the wealth of the world as a whole it must necessarily benefit each particular nation in it,—is the weakest of reeds on which to stake the issue of a problem so momentous for any nation as that of Free Trade or Protection. And yet so great is still the prestige of this old stock-in-trade fallacy of the effect of the passage of gold and the turn of the Foreign Exchanges in keeping International Trade, when once started, going on forever, (for it would be fatal to admit that trade could come to an end through any one nation being vanquished by a rival nation because it kept its ports open, inasmuch as that would be a standing proof that what was for the benefit of the world as a whole was *not* necessarily for the benefit of each nation in it);—so great is the prestige of this doctrine, that it has unduly

biased the judgment even of Mr. Hobson—one of the most wary, far-sighted, and free from illusions, of all those who have made Political Economy a specialty—in the direction of Free Trade.

Having now passed under review the different arguments by which Free Trade is usually supported in the works of the Orthodox Economists, and the diluted echoes of them from the mouths of the parliamentary politicians with which the newspapers resound; having seen that they rest primarily on the doctrine that what is best economically for the world as a whole is necessarily best for each particular nation: having seen, too, that this doctrine, in turn, rested on the illusion of a common reservoir of wealth which if all tariff barriers were removed, would, like a fertilizing stream, water all nations alike, instead of each having its own private reservoir on which alone it can rely, and which depends on the number and strength of the instruments of production—in the shape of land and other fixed capital—which it has secured for itself; having seen, further, that this illusion of a common reservoir is the direct result of the lumping together of the competitive industries engaged in international trade, with those that are complementary to each other, and then treating them as if *both* were additions to the wealth of each nation, instead of separating them and seeing that while competing industries are warlike in character, and, like rival stags, destroy each other (barring always the conqueror, who now can reign supreme), only the complementary ones are peaceful, fruitful in nature, like the opposite sexes, and beneficent to all nations alike;—having seen all this, and seen further that the prosperity of International Trade when once it is started is, in the opinion of the Free Traders, ultimately fixed and made permanent and secure by the effect on prices of the gold that passes and repasses between nations through the mechanism of the Foreign Exchanges, and that their arguments on this head are not merely analagous but identical with the illusions of the

perpetual-motion schemer;—having seen all this, I say, and that it all rests on a basis of old-world thought engendered in the infancy of Modern Industry (and indeed even before its infancy) by Adam Smith, and as exploded to-day in all else save this of Free Trade (which, indeed, has only been kept alive owing to the saving industrial supremacy among all nations of one highly favoured nation through a long series of years, but now admittedly narrowing on every side and aspect to its close) as is the old Ptolemaic Astronomy:—we may now pass to those related aspects of the problem of Free Trade and Protection which bring it into touch with the problems of general Civilization, of Politics, of Sociology, and of Morality, in which it must ultimately have its roots, but which since Political Economy as a science has been narrowed down to an academic specialism, have been cut away from it, and entirely divorced from it. These we must now proceed to re-unite with it, if the full round of the arguments bearing on this problem of Free Trade and Protection, as opposite principles of policy, are to be presented in their entirety before any nation for its acceptance or rejection.

CHAPTER XI.

FREE TRADE AND MORALITY.

IN the present chapter, and before proceeding to sum up the relative bearings of Free Trade and Protection on the interests of general Civilization, it is necessary to say a word or two on the *moral* aspects of the problem, in answer to the general question as to whether there is or ought to be any difference between the morality that is proper to a particular nation at a particular stage of economic development, and occupying a definite place in the progress of civilization, and the morality that is proper to man as an individual at any stage of political, social, or economic development,—the ideal morality, in short, which has found its classic expression in the Sermon on the Mount, but which nations as political entities have generally agreed is only to be practically realised in some future millennial time. Now this question, far from being of the nature of an interpolation, grows naturally out of the discussions in the foregoing chapters, and may be more properly formulated, perhaps, as follows;—why, having already given reason for believing that a universal Free Trade would be best calculated to increase the wealth of the world *as a whole* when once the world has become a single *political* unity,—however much any particular nation might, owing to its inferior powers of production, be distressed or even ruined by it;—why on ethical grounds, it may be asked, not support a policy of Free

Trade, even if attended by an economic loss to one's own particular nation? My answer is simple, and it is this, that so long as the nations of the world exist as separate *political* units, their purely economic interests must always be subordinate to their *national* independence and integrity; but as the economic prosperity of each of them is the main pillar and defence of that integrity, it cannot be sacrificed to an economic policy which might be admittedly best for the world as a single political whole, without doing a real injustice to the nation itself in the strictest ethical interpretation of that term. On the other hand, when once the world shall have become a single *political* unity,—where all nations alike are the friends and brothers of all,—purely economic grounds need alone be considered; and the economic policy of the world can then be organized on these purely economic grounds alone, without injustice, fear, or afterthought. Or, to put it differently, the game, if we may call it so, which is being played by a world made up of definite independent political units called nations, is a different one from that which would be played if the world were a single political whole; and the cards in consequence will not only have different values in the two cases, but will have to be played under different moral rules, and to be handled in a different way. And the inference from this, again, is that there is no reason whatever why a nation should not carry out a high ideal of political morality, provided always that it can see its way to safeguard at the same time its economic interests; as, for example, was the case with England during practically the whole of the last century, when her unrivalled industrial and mercantile supremacy made it possible for her to indulge her philanthropic moral propaganda of a Free Trade between all nations,—with herself leading the way,—while not merely not lessening her wealth, but actually increasing it. I insist on this the more strongly, because having now passed under review the main considerations adduced by the orthodox economists in support of Free Trade,

and found them wanting, I am anxious to remove out of the way as well, all false ethical preconceptions bearing on our supposed duties or obligations to the world as a whole, or to other nations, before entering on the final stage of my argument which will be to show that in the present stage of civilization, and indeed until the millennium arrives and the world has become a political unity, Protection under one or other form is in every way, politically, economically, and morally, both the right and the necessary policy for all nations; save only in the exceptional cases where a single nation or a circle of complementary nations shall have been enabled by the superiority of its, or their, instruments of production,—like the supreme stag of each herd,—to drive all competitors in the same line from the field. I am quite willing to admit, however, that there is no reason why a nation in its economic policy should not take a high abstract *cosmopolitical* ideal as its standpoint, rather than the apparently lower and more selfish *national* one, provided always that it realises precisely what it is that it is doing; for, in a sense, there is nothing good or bad but *thinking* makes it so; no more reason why it should not do so than why it should not attempt, like the early Christians, to organize the State on the principle of having everything in common; or like the Buddhist ascetics, or the Christian monks of the first centuries, of reducing the wealth of the nation to a minimum, in order the better to live in a kingdom of the spirit; or like the Chinese, of living in the social and moral ideals of Confucius and the sages, to the disparagement of the military virtues—even should that political ideal, end, as it threatened to do (before the rise of the Japanese to supremacy in the East) in the carving up of their nation into spheres of influence for the Western nations, and the consequent destruction of the stability of their own proper civilization. There is no reason whatever, why a nation should not follow a cosmopolitical ideal rather than a national one, any more than that for the sake of a universal peace, which would

benefit the world economically as well as morally, it should not follow Tolstoi and the Quakers and disband its army, dismantle its fortresses, throw away its arms, and sell its ships of war for old iron. No reason whatever; provided the ambition to see your own country strong and great, fearless, independent and free among the nations is nothing to you, or provided that the high *concrete* ideal of practical justice and morality which England as a nation carries with her to all the peoples over whom her flag waves,—not only to the advantage of inferior and less advanced nations, but as a far-shining example to the whole world,—is nothing to you;—a justice and an example, be it said, which of its kind is the most perfect flower of civilization yet realised, but which, were the material power and economic resources on which it rests broken or destroyed, and England in consequence wiped out of the high circle of nations, would be as completely effaced over large tracts of humanity, as the arts and sciences of Greece and Rome were for centuries after the Barbarians had conquered the Empire in war. Nor, again, would it matter that a nation should study the economic interests of the world as a whole as a higher moral ideal than studying its own exclusively, provided that it can make up its mind to seeing its capital and wealth drifting away to foreign nations, as they are successively driven out of one industry after another by foreign competition; and, what is morally of more concern, is prepared to see the workmen engaged in these trades, who of all others have the first claim on a nation's protection (inasmuch as having been deprived of the instruments of production by the capitalists, they are helpless to protect themselves), dismissed in batches as so much dead stock, or 'scrapped' like useless machinery, so that they must either find other trades which are still alive, to absorb them, or (as that is impossible owing to the highly specialized and differentiated nature of all modern industries, and to the technically restricted capabilities of the separate workmen) be compelled to emigrate,—and if they refuse, be told to go into the

workhouse or starve. But we may go farther and say, that there is no reason why the leaders of a nation, and those who formulate its political and economic creed, should not try and realise their economic ideal of what is best for the world rather than for their own nation, provided they frankly and honestly avow it as their principle of policy on every platform, so that the nation itself is not misled, instead of getting a national sanction for their ideal under cover of its being best for the economic welfare of the nation itself; otherwise, while playing their cards according to the rules of one game, they are professing to play them by the rules of another:—they are in fact really playing a cosmopolitical game, and not a national one,—quite a different matter. If this course were scrupulously adhered to, and it were openly announced by the Free Trade leaders everywhere, that their principle and their policy were for the best economic interests of the world as a whole, even if they were not best for their own particular nation, can the result of their appeal be doubtful? I apprehend not; for if the history of the world and of life have taught us anything it is this, that with however single-minded a devotion *individuals* may fight for a cause which is to redound to the greatest good of the world as a whole (with all honour and credit to them be it said), no nation in its corporate capacity as a nation can or will fight for any economic good, as such, that is not primarily to its own advantage, however eager and willing it may be to sacrifice its economic interests where its religion or its national honour and integrity are concerned. And hence, for a principle of Free Trade which is to have as its primary end a cosmopolitical and not a national benefit, frankly and openly avowed, I can anticipate in the present stage of the world a following like that of Tolstoi and the Quakers, but little more. I have mentioned this aspect of the moral problem here, because I have not forgotten how at the time of the Free Trade controversy Mr. Hobson, whose defence of Free Trade was largely prompted by his sympathies with

this cosmopolitical point of view, had both the penetration and candour to admit that from a *national* point of view there was no security whatever under a régime of Free Trade that both capital and labour under the stress of foreign competition should not be compelled to migrate from the soil of their own home. The surprise expressed at Mr. Hobson's attitude by his followers, was doubtless owing to the belief which was almost universally held by Free Traders and Protectionists alike before the appearance of the article in the *Fortnightly* in which I ventured to give reasons for believing the contrary;—the belief, namely, that if Free Trade were made universal to-day it would not only be best for the world as a whole but for each individual nation in it. But the incident suggested to me two things specially;—firstly, the large number of individuals there are in all Christian communities who, like Mr. Hobson, are sincerely prepared to carry out the millennial ideals involved in their doctrines in the most thorough-going way, not only at their own expense but at that of their nation, even in things economical purely; and secondly, of how morally important it is that when they feel so, they should follow the example of Mr. Hobson and frankly and openly avow it. I am aware, of course, that besides the cosmopolitical standpoint which Mr. Hobson adopts in his defence of Free Trade, he has reinforced his position from purely national considerations as well; and that his opinion is, that although capital and labour would gradually and insensibly steal away from a country under a régime of Free Trade, as they were driven out of its open markets by the competition of foreign nations with superior natural resources, they would do so all the same, but even more promptly and inevitably, under a régime of Protection, owing to the waste of national resources and the consequent decline of effective economical fighting power which all tariff walls and obstructions involve. Now, although I am as prepared to admit this as the most extreme Free Trader—indeed that is why I have contended that Free

Trade would be best for the world as a whole if the world were a single *political* unity,—I nevertheless deny that at the present stage of the world's industrial development an absolute Free Trade would yield as great an aggregate of wealth for any nation as a judiciously regulated Protection, when the economic advantages and disadvantages of each are balanced against one another;—and in the following chapter I shall adduce the main considerations that have justified me in upholding this view.

But for the present, having in the foregoing chapters given reasons for rejecting the main contention of the orthodox economists, that a universal Free Trade that is for the best for the world as a whole is necessarily the best for each particular nation, it is necessary that I should call attention for a moment to the reasons which have driven Mr. Hobson and myself into opposite camps on this problem of Free Trade and Protection, in spite of our agreement on the central position; as they are important in throwing light on the profound effects on men's practical conclusions of any difference in their general attitude towards, or method of approach to, a speculative problem. Mr. Hobson comes to this problem mainly, as I have said, from the cosmopolitical point of view; I come to it mainly from the national one. He sees that Free Trade would be best economically for the world as a whole, if the problem were to be treated as a purely economic one; I agree, but deny that it would be best, even economically, for any nations but the few *supreme* ones (and so long only as they are supreme) at the present time, and assert, on the contrary, that it will only be best economically under the political conditions proper to the millennial time; and that,—as I shall presently give reasons for holding,—Protection is the best for nations, as separate individual nations, at the present time not only economically but politically. And these differences, again, between us depend mainly, I think, on his having approached the subject primarily from the *statical* point of view, at once of an economic specialist and a

moral idealist, whereas I have approached it from the dynamical point of view of a student of Civilization and Sociology working on evolutionary lines, and from the social, moral, political, and economic opportunism which is proper to this dynamic and evolutionary point of view. But as in the first chapter of this volume I have given reasons for believing that none of the special sciences dealing with humanity,—of which Political Economy is one,—can be approached with effect statically and from *within* themselves as it were, but must be approached dynamically and from the wider region of Sociology and Civilization lying beyond and *outside* them, I am of opinion that in spite of the rare powers of penetration and analysis which Mr. Hobson has brought to the science of Political Economy in general, and of this problem of Free Trade and Protection in particular, his view on this most important of all practical economic problems is erroneous.

With the above general observations on the moral importance of not mixing up antagonistic standpoints in discussions of this kind, but of keeping each rigidly to its own proper subject-matter, it is now incumbent on me to show cause why, from the standpoint of Evolution which is the one adopted in this work, Protection (with the exception already mentioned) is a better policy for the nations of the world in the present stage of civilization, than Free Trade.

CHAPTER XII.

FREE TRADE *versus* PROTECTION.
POLITICS AND CIVILIZATION.

THE first position I am anxious to advance in this important controversy is this, that the millennium of a universal Free Trade which is the ideal and consummation of economic powers and opportunities, and in which all the nations united as brothers shall co-operate in the work of each, and each in that of all, will be hastened rather than retarded by each nation in the meantime, and as preparatory to it, developing its own resources to the utmost, precisely as if no other nation but itself existed in the world. And this it can do only by protecting at all costs those *instruments of production*,—whether its land, its mines, its natural products, its special manufacturing capabilities, its facilities for transport, or what not,—which, as we have already seen, are its permanent economic assets, its very life blood in short, and which, like Othello's handkerchief, to barter, part with, or give away, 'were such perdition as nothing else could match' And the reason is obvious. For the difference between thus protecting its own patrimony, and throwing it open to the incursions of all the world as Free Trade would do, would be economically the same as between enclosing the separate fields of a farm by fences, and throwing them open like a public common for horses and cattle, wayfarers, holiday makers, and robbers, all

alike to enter and destroy, or to pluck up by the roots what had been sown or planted, before they had time to grow and ripen. It would be the same as the difference between a social régime of separate marriages with their children and homes, where the virtues and strengths of each individual member are nurtured, protected, and developed to their highest possible extent, and casual temporary alliances and promiscuities where the growing germs of virtue, with all the elemental passions blowing through them as on a wind swept plain, are reduced to a mere waste and anarchy, without any definite morality or rule of life at all. In a word, the difference is as the difference between the method of Nature herself, and the temporary theories of man. For if there is one thing more certain than another in the general ground-plan on which the world is constructed, it is the determination that each race of creatures, as well as the different races of mankind, shall be protected in its own individuality by all the exclusive agencies in the defensive armoury of Nature—sexual selection, physiological selection, prepotency, mental, physical, and sentimental repúlsions and affinities, national and racial self-centredness, etc.,—whereas the mere humanitarian theories of abstract philosophers would, as we have seen since the days of Rousseau and the French Revolution (and with the disastrous results which are now only beginning to be felt), mix you up races of men of all countries, colours, and climes,—Hottentots and Indians, Chinese and Europeans, Jews and Gentiles,—to let them prey on each other in the bosom of every community, under the wide canopy of what these humanitarians love to figure as a higher and nobler ideal; and with as much nonchalance and indifference, as they would look at the mixing and seething of herbs in a pot. And if we consider it, so long as the nations of the world are in that stage of civilization where they are determined to protect their own nationalities, as separate political units, at all costs, the very thought of allowing their economic instruments of production, on which alone they can rely for the protection

and preservation of their national integrity and individuality, to be overrun, destroyed, or carried off by the invading Attilas and Alarics of other nations, by throwing down their economic defences and openly inviting them to come in, would, were it not for the doctrinaire abstractions with which men have veiled their sight, be seen at once to be a stultification and madness. This policy, if made universal to-day, would not only wipe out these instruments of production as effectually,—for all nations except the few who should succeed in conquering the rest in their own lines of work,—as if a hurricane had passed over them; but it would strangle at their birth, and before they had time to grow to industrial maturity, those younger nations to whose great but undeveloped natural resources we mainly look for the future economic wealth of the world, as the soils and mines of the older nations are one by one exhausted. That this is no imaginary picture of what would happen has already been practically demonstrated in the case of the other nations of Europe, Asia, and America, when, during the last century England was at the height of her manufacturing supremacy. Each of these nations in turn tried to get a foothold for its own infant manufactures by admitting English manufactured goods free, but they were so summarily snuffed out one after the other, that these nations were all obliged to put up their tariff walls again for their own protection,—and even their very existence.

And this leads me to the second position I have to maintain, which is this;—that in the present stage of the world and of Civilization, Protection is capable of yielding not only a greater amount of aggregate wealth for the world as a whole, but a greater amount for each individual nation, than Free Trade. Now in laying down this proposition, I am only bringing the science of Economics into line with Politics, Ethics, and Sociology; in all of which it is generally conceded that in the present stage of civilization, the existence of separate nationalities (founded on those historical, racial,

political, religious, moral, and social affinities which in their combination constitute that unique something which is summed up in the term nationality) is more calculated to further the ultimate ends of Civilization, than the unequal combinations held down by force, and called empires, which have been the result of mixing races too antagonistic in permanent sentiment to do aught but gird at each other and show their teeth, and so to debase and neutralize each other's moral currency when planted together on some common area of political soil,—this primal curse of civilization which even to-day, nations, from pure tradition and ignorance, still indulge themselves in encouraging, as if it were one of the rarer and more commendable forms of Christian charity; and that too with the spectacle of the American Negro problem, the Magyar, Polish, and Slavonic-Austrian problem, the Irish problem, and the South African Kaffir and Chinese problem before their eyes, with their tales of lynchings and massacres, and refusals to do black men's labour; and in spite of the fact that they have as much difficulty in extracting a grain of the very ends for which all politics and civilizations exist,—namely social justice, morality, peace, goodwill, humanity, and mental culture,—as in extracting the grains of gold out of a mass of quartz. And yet this stultification is what the politicians of all countries are engaged in promoting, or at best are not actively discouraging, to this very hour. Now it is the same with a Political Economy which would encourage the struggles, the uncertainties, the closings down of mills and workshops, etc., which a universal Free Trade, with its open markets, would involve at the present stage of the world, when separate political nationalities are all engaged on the supreme object of jealously guarding their independence when acquired, and of acquiring it when it has not yet been attained. It is true, of course, that in the eminent successful instances of world conquest by single Imperial powers,—as of the Eastern nations by the Greeks, of the West by the Romans, of the Indies by the English, and even in the

over-running of the greater part of Europe by the emissaries of the French Revolution under the early Napoleonic régime, —a fertilizing deposit of the higher political, social, and humanitarian virtues which civilization exists to realise, was in each instance left behind,—a deposit which was not altogether lost even in the East until the Mahommedan conquests, and which was not lost at all but on the contrary was absorbed and appropriated by the Barbarian invaders of the West, while even the fertilizing rains of the French Revolution, remain as permanent possessions for modern Europe in spite of all the reactions since Napoleonic times;—and as for the English conquest of India, it has been so far productive of nothing but benefit, and with a minimum of disturbance or drawback, if any, for the Indian people. In saying all this I shall perhaps be felt to be injuring my cause—namely, my attempt to assimilate the laws of Political Economy with the course of Civilization —by making the success of these invasions of the separate nationalities of the world by the greater Imperial potentates, not only a standing contradiction to my advocacy of a national as distinct from a general or cosmopolitical standpoint, but a direct incentive to the very Free Trade which I am condemning. And yet if we stop to consider what it was that these successful world-empires and imperial dominations really accomplished, we shall find that they gave the subject nations which owned their sway *complementary* rather than *competitive* ideas,—if I may venture to use in speaking of Politics, for the purpose of marking a real distinction, the same terminology which I have used in Political Economy. And as we found that in economics, competitive products annihilate each other and are a deduction and loss, whereas complementary products are an addition and gain: so in the Græco-Roman and other imperial civilizations, the only elements which proved fertilizing, progressive, and permanent additions to the existing stock of civilization were those which were complementary and could be assimilated by affinity, not those which were competitive and which could only

X

have gained a foothold by entirely breaking up the existing organization of the different peoples. The Græco-Roman civilization brought to the conquered nationalities, order, even-handed justice, and peace, a greater range of abstract knowledge, and a higher scientific jurisprudence, all of which being complementary and easily assimilated, could and did bear fruit at once. It was the same with the higher elements of civilization which the English carried with them to India, and with the secular science which the Japanese have accepted from the Western nations. A new religion, on the other hand, is a competitive idea, and will be instinctively resisted by force by every nation in proportion to the strength of its purely national sentiment; for if once invited to enter in freely, it will as surely, though silently and unseen, eat out a nation's distinctive civilization—root, trunk, branches, stems, and leaves—as a colony of white ants will a decaying tree;—as Christianity did that of the Pagan Græco-Roman world, Mahommedanism the Eastern Christian world, and as the religion of Liberty, Fraternity and Equality of Rousseau which the French Revolution carried throughout Europe, is doing for the Christianized Feudalism of the Middle Age Barbarian nationalities erected on the ruins of the Roman Empire.

If, therefore, the nations of Europe and the West, and of Asia and the East, wish to retain intact the essential elements of their nationality and civilization, let them beware of permitting the free entrance and propaganda of each others' religions, and especially of the dogmatic theological systems in which these religions are embodied; for although the essential *spirit* of the highest religion is a complementary product, and can be assimilated anywhere and everywhere with nothing but benefit to general civilization, the theological formulas which are bound up with it are antagonistic and competitive in their essential nature, and are as poisonous to the life of other nations which embrace them, as is the mixing the different peoples themselves on the same areas of political soil.

Now, it is precisely the same with that side of civilization which deals with the purely economic policy of nations, except that it works its effects through material instruments of production and material wealth, and not through the earlier forms of brute force and conquest, or the more insidious mental and spiritual forces of philosophies and religions. And therefore, if a nation which desires above all things to preserve its distinctive nationality in freedom, dignity, independence, power, and influence among the other nations, is at the same time prepared to risk all on a single hazard, no shorter cut can be found to it than to stand boldly forth and proclaim to the world its intention to open its ports freely to the products of all nations, inviting them to do the same. If they accept, and the nation in question is *supreme* in some one or more great departments of world-industry, it will win, and if all its powers are already concentrated and organized for the attack, will overrun the other nations and extinguish their competing industries like a conquering host; if, on the other hand, it is supreme in nothing, but mediocre in all, its circle of rivals will bombard it, each from its particular vantage ground of supremacy in this or that department of industry, and reduce its mills, factories, vineyards, and soil, to extinction and desolation, precisely as in war. But either way, a universal Free Trade would bring nations to the death-grapple at once, and if inaugurated to-morrow would so quickly alter the industrial map, that many of them, prosperous and dignified to-day, would within a decade or two be reduced to mere geographical expressions; and only the few nations supreme in those lines of work which are complementary to each other, would survive to bulk themselves out in the world's admiration and esteem. On the other hand, if none of the nations are willing thus to 'try a fall' with all and sundry at close quarters and at short notice, their best policy is to trust to Protection to preserve and develop their own instruments of production: doing the best they can for themselves meanwhile by 'treaties

of commerce' and the like,—just as the nations in the military ages used to do when uncertain of the issue of war, by mutual diplomatic combinations carefully calculated to preserve what they called 'the balance of power,'—until the time shall arrive, if ever, when they think they can step into the arena again, and contest the palm of supremacy on their own account by proposing a régime of universal Free Trade. Now this is precisely what the stage of civilization in which we are living theoretically demands as the best existing policy for nations; and practically it is just what the nations are now doing. But this policy is not so much the result of economic penetration on their part, as of sharp and bitter experience. Led astray by the prestige and authority of the writings of Adam Smith, and by the universal consensus of the long file of succeeding academic economists, they allowed the success of England under her Free Trade régime to dazzle and blind their sight, and determined that they, too, would see what they could do by keeping their ports free. One nation after another accordingly, undeterred by the failure of its predecessors, tried the experiment in turn, but their incipient manufactures were so promptly wiped out by the influx of English goods driving their own out of the market, that they were fain to put up their tariff barriers again at the earliest possible moment. And indeed until this hour, and as I write, so great is the essential supremacy of England in so many and so various departments of industry, so great is her potential capacity—from her manifold natural resources in so many different lines of industry, ranging from the coarsest to the finest grades and qualities in each kind,—that were a universal Free Trade between the nations proclaimed to-morrow, many of their furnace fires would be blown out, and their workshops, factories, and mills would have to close down again, as they were obliged to do during the last century. The nations know it, and pile up their tariff barriers higher and ever higher accordingly. So that the question now becomes;—how would the account have

stood between Free Trade and Protection to-day, so far as the existing amount of wealth in the world is concerned, had the nations persisted in a policy of Free Trade instead of Protection? The answer, I think, cannot be doubtful. For had they done so, with English industry standing over them, like a conqueror with drawn sword, and ready to spring on them, the immense potentialities of wealth lying latent in America, Germany, France, Belgium, Russia, and the rest, all of which have since reached such imposing dimensions, would have lain undeveloped, and as unable as paralytics to make a move towards realizing themselves in actuality. And the reason is quite simple. For in a régime of Free Trade, the quotations of the world-market price of any article determine and limit the number of competitors in any and every nation who can enter the arena to compete, as a world-championship does in sport; and not an acre of land dare be cultivated, or a mill, or factory, or mine, be opened, however much potential wealth may be latent in them, unless its proprietor sees his way to enter this world-market as a producer at the current market price, while this régime lasts. In protected nations, on the contrary, the market, although more restricted, is, like the purely *national* sport championships, open to a greater number of competitors; and those nations who were daunted under Free Trade, can now pluck up courage and make a beginning at least in opening up those resources and utilizing those instruments of production which would otherwise have lain undeveloped and unused. If the area of competition is still further restricted, the competitors will still further increase in numbers, and, as a consequence, still more natural resources will be opened up, until you get down to the village cabbage garden, which might have remained a piece of uncultivated common, had not the cheaper produce of a neighbouring town, owing to distance and expense of carriage, been prevented from competing with it in the village market. Now the fact that statically, or at any given point of time in the revolution of

the wheel, the production is limited, restricted, and determined by market price, and neither by actually existing money capital, nor yet by the potentialities of wealth everywhere lying in men's brains or in the soil under their feet—or in other words that the production of wealth is limited by 'exchange value' and not, as it should be, by 'utility value'—has the most far reaching consequences in practice. Of all the false and misleading doctrines of the orthodox Economists which we have passed under review, there is none which is more far-reaching in its effects than this, where after throwing down their distinction between 'value in use' and 'value in exchange' they have left it there, without making any attempt to relate the two to each other in such a way that the one can be subordinated to the other for the practical end which the science of Political Economy has in view. And as this end is clearly the production of the greatest possible amount of wealth for the world as a whole and for each nation in it, or in other words the greatest amount of 'use values'; and as we have just seen that the 'use values' are restricted rather than helped by the mechanism of the market, which makes price, or 'exchange values,' the measure of production of wealth; it is evident, is it not, that unless some practical policy can be devised which will give to 'use value' the control over market or 'exchange value,' the production of the wealth of the world will be hampered and hindered rather than increased. And the only question is how is this to be done?

Now as all instruments of production which can produce more wealth than is consumed in their making or working, are an addition to the 'use values'—the real wealth—of the world; and as almost any plot of ground, even with the rudest implements, will do at least this; and as, further, the first necessity and duty of each nation is either to find work for its population when they are ready and willing to work, to pay for their emigration, or to maintain them out of its national resources, inasmuch as it cannot frankly destroy them, as it does its

horses, when there is no work for them to do; it is evident that the policy of which we are in search must be one which will of itself stimulate the greatest number of men everywhere to throw off their coats and set their brains to work to develop every natural instrument of production,—every rood of available soil, every mine and stream within their territory,—to its utmost possible extent, so as to make a market for themselves; and not wait for a world-market price, which in manufactures, and even in land products and mines, is always fixed, where competition is keen, by the strongest competitors; and which, where trade is absolutely and universally free, stands over all the world like a guard over men under arrest, paralyzing all but the strongest, and reducing them to impotence. And, as we have seen, such a policy is Protection;—the protection of limited areas which will set all hands in them to work to make their own market prices, irrespective of the world outside, and so leave no natural instrument of production anywhere altogether unutilized; for as the powers of Nature are always there, waiting to help man if he will only utilize them, every day lost is a deduction from the sum-total of possible wealth in the world.

This leads us to the next position which I am concerned to maintain, namely, that in the economic evolution of the world, as in the political, the protection of small enclosed areas has been the policy by means of which alone the nations have reached their present state of development; and consequently that as the world is still in that intermediate stage between the cave-men and the millennium, when the existence of separate nations is a *political* necessity of civilization, a continuance of that policy, and not a breach with it, must be the economic policy also. Historically, little groups of people over scattered areas began by protecting themselves from one another in little defensive villages and towns, by economic fences and tariff barriers of all kinds, in their rude way, just as they protected themselves, as political units, by their bows and

arrows or spears: and it was not until they became politically united into larger and larger groups, and at last into nations, that their economic defences, keeping time with their political, were thrown down also. And the net result of this was, that each little group being obliged at each stage to work up the soil and material lying under its own immediate control to their highest possible point—by all the instruments of production, however primitive and rude, that were open to them,—when the time came for their political amalgamation into larger and larger groups, it was found that, like thrifty couples who have each saved a little money for their marriage and honeymoon, each had its own thoroughly cultivated and developed patrimony — plot of ground, machinery, horses, cattle, etc.,—ready to throw into the union. And the consequence of this, again, was, that whatever economic restrictions were made necessary by the political reconstruction, the nature and potentiality of every rood of ground and of every existing instrument of production being already known, bits of inferior land would be let fall out of cultivation here, old water-mills suppressed there, here an old peat bog, there an old stone or gravel quarry, at another spot an old pit of metal ore, or a rude mechanical or chemical process, or what not; and all because it was now more profitable for the new political amalgamation to be supplied at those salient superior points within its borders where each kind of industrial operation could be supplied at the least cost; precisely as we see to-day in the case of the American Trusts, where the reconstructions which have given to the Trusts their general economy and efficiency, as well as their most formidable industrial fighting power against their foreign rivals, have only been possible through each smaller concern in these great amalgamations having been first *independently* developed and brought to its greatest point of effectiveness, by being allowed to grow up in security at a time when, from the absence of railway and transport facilities, the effective domination of each of them

from any great distance was impossible. And hence if we wish to realize to the full what would have happened to the economic world had its development not proceeded from small protected economic groups growing ever larger, until as last all alike have to stand the fire of a fierce Free Trade competition throughout the whole mass, we have only to imagine what would happen in America to-day, with the giant Trusts in each department of industry already in the field. It is obvious that, with the exception of the cultivation of the soil, no industry could take root at all. With the sword of market price, fixed by these mammoth industries, suspended over the whole Continent, only the most reckless and adventurous, willing like Arctic explorers to risk all and lose all, would take the field against them. I have assumed here for the nonce that transport facilities are fully developed, but in actual fact the absence of them is one of the greatest difficulties to be encountered in endeavouring to foist a universal Free Trade on separate nations before the time is ripe for their being taken up into one great all-embracing political unity. This difficulty is in itself the standing proof that the evolution of economic policy must both begin and be continued by the protection of separate groups and areas, starting at innumerable points, and growing larger and larger outward and outward to the circumference; and not from some single all-dominating policy like Free Trade, co-extensive with the whole world, and attempting to work its way inward through innumerable separated areas down to the last village and cornfield. Free Trade, in a word, is the *end* of the economic process of world evolution and development, never its beginning or middle term; and perhaps no better rough and ready shorthand formula can be found for indicating where in any given case Free Trade is to end and Protection begin, than one which would make Free Trade co-extensive or co-terminous with the boundaries of *political* unity, but with Protection against all the world outside this limit;—all exceptions having to justify themselves before a jury

prejudiced, to begin with, in favour of Protection, and not of Free Trade. In the application of this rule, the greatest standing difficulties and complications arise in the case of Colonies cut off from the mother country by wide regions of land or sea, where the effect on the imaginations of men of the soil on which they were born is so potent, that neither bond nor charter, privilege of birth, nor affectionate loyalty, will avail to neutralize the feeling of separate nationality which this circumstance engenders. And accordingly, all Colonies lying at a distance from the motherland must be regarded economically as separate nationalities, and bargained with as such, on the same principle of mutual give-and-take as is proper in economic dealings with foreigners. But with this variant, the rule will hold good throughout, namely;—no Free Trade beyond the bounds of political nationality, except for special reasons shown, or except in the case of complementary products, which, as distinct from competitive ones, should in all cases where otherwise possible be admitted free. By following this simple rule, the economic evolution of nations will be kept in line with their political evolution, step by step and from stage to stage; the universal Free Trade of which the orthodox Economists dream, being postponed to the time when the world shall have become a single political entity and unity;—and that, one suspects, will be somewhere in the distant millennium. Meanwhile Protection must be the order of the day for all nations, if their safety is to be in following that law of evolution which is now admitted to be our sole supreme exemplar and guide in all things; and not less so in Economics than in Biology, where each living thing that can in any way subsist by itself is an independent unity,—whether as a mere cell, or group of cells, or as an organism of many different kinds of cells,—and is always equipped with organs protecting it against every other, organs which are never dispensed with until others are ready to take their place. No bull sheds his horns in emulation of the superior effectiveness

of the tiger's teeth, nor ought any nation to pull down its tariff walls in emulation, or imitation, of another whose productive efficiency in some great line of work permits it to indulge in the luxury of Free Trade. Indeed, why those political units called nations, all of them lying somewhere midway between primitive man and the millennium, should imagine that they can jump the element of Time and the law of Evolution, and in face of each other's aggressions throw away their economic defences, and clap each on its own head a quaker's hat of Free Trade, without waiting to consider whether the stage of evolution proper to such an ideal has arrived or not, can only be explained by the influence wielded by the orthodox economy over all nations in the days before Evolution and Sociology had begun to make themselves felt in the intellectual life of the world. So that it all comes back to the proposition with which we started out, namely, that until the millennial time arrives, when all the world shall have become a political unity, the sum-total of the wealth of the world will be greater when each nation works up its own resources and instruments of production behind tariff walls, than under a universal Free Trade where the competitive industries of each nation would extinguish one another more quickly and surely, and at a greater economic cost and waste, than the complementary ones could make good; precisely as at the present time (to use our former illustration) more wealth is to be got from an enclosed field, in spite of the expense of the fence, than is to be got from an open common; more morality from separate families and households, than from promiscuity; more national welfare from keeping separate races apart, than from mixing them indiscriminately on the same area of soil.

Now the effect of this general policy of Protection universally carried out in the present stage of Civilization,—but in ever varying forms and degrees according to the needs and circumstances of each nation,—would be that when the millennium

adapted to a full blown Free Trade shall have arrived, and economic ideals be applied as universally as will then be those of the Sermon on the Mount, each nation will in the meantime have worked up its own instruments of production and of transport to the highest possible point of efficiency, so that with the relative strengths of each sufficiently known to all, all alike can be so reorganized and redistributed that, as with the Trusts in America, only those nations will be selected for the different kinds of production where the product can be grown or manufactured at the least cost, and each, in consequence, will be utilized for the greatest benefit of all. As for the way in which nations can, under Protection, build up from their foundation 'infant industries' which under Free Trade could never have got a foothold at all, the shipping trade of Germany may serve as a passing example. When, after the failure of Free Trade, Bismarck returned to a policy of Protection for Germany, he found that the shipbuilding capabilities so necessary for her all-round industrial development, were severely handicapped by the cost of transporting the coal and iron required, over the long distances intervening between her mining centres and her shipbuilding yards on the coasts and along the harbours of her great rivers. To remedy this, the State first got control of the railways, and then reduced freights to so low a point, that it put the German industry of shipbuilding more nearly on an equality with that of England,—so far at least as the cost of transport of the raw materials from the mines and manufactories to the shipbuilding yards was concerned. But still it was generally believed that the obstacles to the development of a shipping industry were insuperable, owing to the disadvantage of her narrow seaboard, the fewness of her natural harbours, and the preponderating power of English shipbuilding, which had gathered into its hands almost the entire German shipping trade. But the German Government, undeterred by difficulties when once the end was clearly in view, set to work—with that deliberation, thoroughness,

caution, and determination, which are so characteristic of the people—to remedy this defect; and resolved that as the nation had been born without a natural limb, an artificial one would have to be found to take its place. And accordingly having the control of the railways and the tariff in its own hands, the Government began by admitting all the materials necessary for its nascent shipbuilding free of duty, but as the manufacturers still found it much more to their advantage to employ English shippers than their own, the Government was obliged to devise means by which the manufacturers, the ship-builders, and the shipping merchants should all be forced to play into each others' hands, and not into those of the foreigner. And accordingly we find it giving its orders for warships only to German ship-builders; while it made its subsidies to passenger liners dependent on their employing home materials in the construction of their boats; the upshot of it all being, that both the shipbuilding and the shipping trades, which could no more have taken root in Germany in the face of the great supremacy of England in both these departments than they could on some coral reef in the Southern Seas, were enabled by the combined powers of Protection on the one hand, and of a control of Industry by the Government sufficient to bring individual recalcitrant traders into line on the other, to step forth in less than a single generation from their birth, and to contest the supremacy even of England herself in a large section of that shipping industry which she had made peculiarly her own, but which had taken her centuries to build up. And the moral of it all, for all economists and all nations, is obvious, namely, firstly, to protect each its own instruments of production as assiduously as it already abstains from taxing them; and secondly, that each Government should be armed with the full power of doing this, and (now that the age of Industry has fully come) of doing it as thoroughly and effectually as it does in war.

And lastly, that so long as the present capitalist form of the

industrial régime lasts, the great body of genuine working men being prevented by that régime from all access to, or control over, the national instruments of production, have a right to demand that these instruments shall be completely protected, and not sacrificed, as Free Trade aims always at doing, to the interests of the consumer as such, and especially to the lowest and most unskilled members of the community,—the great proletariat of industrial ineffectuals who must be dealt with as subjects of *political* administration, but can no more be made the basis of the political economy of a nation, than the camp followers, or even the wounded, can be made the basis of a campaign in war, however much they may have to be studied or provided for as collateral considerations. For when divorced from the instruments of production of a nation, the mere consumer, as such, of whatever rank, or profession, or employment he may be, is as we have already seen the veriest sac or barnacle, 'eating his head off'; and that the State should deliberately set to work to organize itself on *his* interests (and that is what Free Trade not only essentially means but openly avows) and especially when, driven to it by its own logic, it would organize itself in the interests of the *lowest* degenerates—the incapable, the drunken, the 'work shys' and the slum-dwellers generally—while at the same time it is content to sit still and see one instrument of production after another carried off by foreign rivals without a sigh or an effort made to save them, but with a 'God speed' rather,—and that too on the curious ground that there are always plenty of *other* industries ready to spring up in their place;—all this is an attempt to make the pyramid of State stand on its apex rather than on its base, and is to reverse all the lessons and teachings of Nature, of History, of Civilization, and of Human Life. But it may be objected that the genuine working men themselves do not agree with me in this, but believe, on the contrary, as is shown by their votes in support of Free Trade, that their interests as producers, as well as

consumers, are better subserved by Free Trade than by Protection. To which I can only reply, that in my judgment three fourths of the considerations which have confirmed them in this opinion are drawn from the orthodox Political Economy, and from the economic practice and tradition of the particular country in which they have been born and brought up; and that my object in writing this book is to supplant this old Ptolemaic system of Political Economy by a new Copernican one, and as far as possible help to neutralize the weight which still attaches (in England alone of nations), to the old economic traditions of Free Trade which are bound up with that system.

If then, in summing up the results of this long enquiry into the question of Free Trade and Protection, we were called on to lay down some rough general rules to follow in deciding whether Free Trade or Protection, or a mixture of the two, were best adapted to meet the particular requirements of a nation, we might formulate them somewhat as follows:—

1. If the nation in question is indisputably ahead of all its rivals in certain great lines of competitive industry, as England, for example, was fifty years ago, and to a large extent still is in her manufacturing and shipping industries, it can pull down its tariff walls and open its home trade freely to the incursions of all the world, and still sleep securely: for in what is competitive it can by the hypothesis beat the world already, and as for products that are complementary to its own, it wants them in any case, and the cheaper the better, and so lets them in free as well. The standing exception to this general rule is that the land of a country, which is the nursery and breeding ground of the nation itself, should never be permitted under any circumstances to go out of cultivation, and above all should never be sacrificed to a mere slight difference in the price of corn to the consumer. Otherwise you get an anomaly and stultification like that of the rich land of England falling out of use over great tracts and areas,—a deliberate throwing

away of an instrument of production which, were it cultivated by peasant proprietors, as in France, would support innumerable families in comfort, would indefinitely increase the resources and power of the nation, and keep up its sturdy stock of men;—and all sacrificed for what? That herds, and ever more herds of the lowest ineffectuals, may gravitate in increasing swarms more and more to the slums of great cities, there to swelter by their tens of thousands, and either to be kept on the rates, or to scuffle in the gutters for the crusts of bread cheapened, as if by design, to attract them there, to breed and multiply like rats on the gratuitous garbage of the sewers. For so great is the natural aversion of mankind to monotonous and uninteresting labour, that if you but made bare subsistence cheap enough, you could choke up the world with lack-alls and do-nothings, like the negroes in some of the West Indian islands, in the course of a single generation.

2. On the other hand, if the nation in question can be beaten in its own home market in *all* its instruments of production—by one nation in this, by another in that, by a third in something else, and so on—then let it put up tariff walls sufficiently high for its purpose, against them all, and then settle down to make the most of its own patrimony; while letting in all complementary products for which it is absolutely unsuited, free.

3. If a nation have a world-supremacy only in certain departments or processes of some great line of industry, as, for example, in the *finished* product, and if this supremacy would be threatened, as in the English cotton manufactures, if it had to depend on its own raw materials, then these latter should be let in free. On the other hand, if the supremacy were in the raw materials and not in the finished product, then the nation should protect its finished products if possible until it had acquired sufficient skill to manufacture them on even terms with the foreign rival; and so on, through all other differences in detail between nation and nation; the great

object being to make a nation as self-sustaining as possible, and as little dependent on sources of supply outside its own political jurisdiction;—always of course excepting those purely complementary products which must be allowed to enter free. But in all cases of difficulty of adjustment between conflicting interests, the Government should always approach the question with the same bias of mind as it has in matters of taxation, namely, always to protect your instruments of production wherever possible, and shield them from the incursions of a Free Trade that would destroy them.

4. Should the nation in question enjoy a world supremacy in some unique class of product,—as France in wines, Turkey and Cuba in tobacco and cigars, England in steam-coal and china-clay, South Africa in diamonds, and so on; let that nation protect its product by taxing its export up to the point which the foreigner will be willing to pay, so that the net revenue shall not be diminished, precisely as the diamond-mine owners do of their own accord in restricting their out-put of diamonds. In short, treat other nations in this regard, as a tribe of Red Indians in possession of rifles would all other tribes who were without them, and make it as commercially difficult for individuals to sell their china-clay to be used in manufactures against you, or their steam-coal to be used in war-ships against you, as it is to sell the enemy your ironclads or ammunition in war; and permit no individuals, in their break-neck haste to be rich, to so flood the market and undersell each other by competition, that their china-clay is as cheap as brick-clay,—any more than diamond kings will do with their diamonds,—thus sacrificing a future national asset of rare value to present individual greed. In a word, administer your national economics as you would your private estate, treating all foreign competitive industries as enemies in disguise, all complementary ones as friends bringing gifts, and making the most of your resources by manœuvring and strategy, as is the way of the private capitalists of to-day.

5. But if, as is the case of England at present, the full natural industrial supremacy of a nation is impaired at all points, and robbed of its natural fruition by hostile tariff barriers on the part of other nations, let that nation retaliate by means of 'treaties of commerce' made with each on the basis of a general tariff, or what not, and graded according to their industrial fighting strengths; all those that are allowed to enter on reduced terms having to pay a *quid pro quo* for it; and all being frankly treated on the Roman principle of 'divide et impera.'

And lastly, all obstructions that may arise to the carrying out of these general rules from the *political* side, ought to be subordinated to *economic* considerations; and not *vice versâ*. For example, the fact that as things now stand, the main benefits from protecting the landed interests of the nation would go, in the shape of increased rents, into the pockets of a limited class of landlords, is quite sufficient to prevent the great body of the people from insisting that the land of this country shall not be allowed to go out of cultivation. But does anyone imagine that if peasant proprietors were as thick on the soil of England as they are on that of France, this hesitation in protecting the land would continue for a day? It is a case of the political situation 'cornering' the economic one; and is to be remedied by coercing the landlord class into permitting the land to be broken up into freeholds, graded from 'three acres and a cow' up through ten, twenty, fifty, and a hundred or more acre holdings, to the larger but vastly curtailed possessions of the landlords themselves,—the crown and apex of the industrial and social pyramid in the country, as distinct from the manufacturing interests of the towns. Or again, the aversion to putting a sufficient tax on corn to protect the land from going out of cultivation may be due to the congested swarms of derelicts and incapables who, like the Roman populace, have to be fed at the cheapest rate, or kept at the public expense. In this case, the remedy is to clear the

slums of those who cannot afford to pay the increased price of a loaf of bread, and pack them into labour colonies the while, until the political and the economic situation have been brought into harmony again. Or again, the great body of genuine working men may refuse to submit to a tax on corn sufficient to recultivate the soil of their country, owing to the difficulty in getting capitalists to consent to a rise of wages sufficient to cover the increased price of bread. The remedy for this, as in France, is a race of peasant proprietors who in return for the protection of the products of their land, will lend a helping hand, as a *quid pro quo*, to the Trades Unions in their attempts to wring from the employing capitalists, through legislation if necessary a minimum living wage. Then again, among other economic obstructions which must be removed by political means, there are, first, the little knots of middle-men sitting in secret conclave, and neutralizing by their extortions all those casual gratuities of Nature,—whether in the corn-market, the fish-market, the meat-market, etc.,—which owing to favourable seasons and conditions would naturally result in cheapened prices to the consumer; next, the giant trade combinations, trusts, 'corners' and combines, that hold up prices through monopoly, in spite of all the efforts of the innumerable minnows of the trade (who can always be vanquished in detail) to pull them down; and lastly, the ingenuities by which taxation is shifted from the shoulders of those on whom it was intended to fall, on to those who were intended to be exempt. All such anomalies, which interpose to block and neutralize the economic good of the nation as a whole, are to be dealt with by Legislation, and especially by wider and more elastic powers of Administration adapted to each particular case; and not, as at present, by refusing to do anything at all because no *general* rule, law, or principle, can be found which is applicable to all alike. The remedy, in a word, is to get back as quickly as possible to the methods of the days before the gospel of laissez-faire came in,—a doctrine

once a blessing, but now proving a curse every day that it survives. For it was adapted to that transitory stage of industry where the industrial investments of individuals were so protected from each other by difficulties of transport, and yet were so subject to each other's competition (when any one threatened to overshadow its neighbour or to grow to excess), that a simple, general, self-working rule like that of leaving things to right themselves, was sufficient to do rough justice to all the interests concerned, and to permit of the greatest ease in industrial expansion as well. But it was not so in earlier times, nor will it ever be again under the present industrial régime. In the Middle Ages, the absence of transport, and of easily recognized standards of judgment, made administration, inspection, and the application of special laws to particular cases, a *necessity* of industry; made laws against the 'forestalling' and 'engrossing' of corn, too, a necessity, (if dangerous famines were not to be suddenly confronted), owing to the varying incidence of crops and seasons; but the necessity for all these special laws had largely passed away by the time of Adam Smith, who was mainly instrumental in focussing and consolidating the growing body of opinion in favour of leaving all things alone to the play of unrestricted competition. At the present day, on the other hand, Transport is so thoroughly organized and so complete, that Competition can never again be made the basis of any system of Political Economy. Never again will businesses of any kind be able to repose in security, so long as they are operated through small capitals in isolated hands; for the combinations of capital into great balls administered by a few hands will wear out, override, and finally extinguish all smaller isolated competitors, however great in the aggregate their dispersed capital may be; in the same way as cannon balls will overcome resistances which are proof against showers of rifle bullets of an equal aggregate weight of metal. Combination, in a word, having as its ultimate aim either limited or absolute monopoly over given

fields and areas of industry, from now onwards must more and more become the watchword and order of the day in all business and industrial undertakings; while Competition and Laissez-faire,—the pillars on which, as presuppositions, the entire structure of the old orthodox political economy was reared,—must more and more decrease, until they become only a scramble for the leavings among the hangers-on and surplusage populations of the industrial world. Legislation and detailed administration, therefore, and ever more of them, must for the future be the supreme concern of nations, if all this multitudinous mass of 'unearned increment,' coming from combination, from monopoly, from favoured situation, from the growth and distribution of population, is to be utilized for the greatest good of the nation as a whole. To wait for a return of the industrial cycle, when at some distant future time the principle of laissez-faire shall again be for the best interests of social and industrial progress, as it was during the last century; to wait to put down anomalies arising in the development of industry until you can get them all under some *general law* of treatment like this of laissez-faire, whose application would do no injustice to any, would be only to give the wolves a still longer lease of life, and to make the industrial world over to them as a perpetual spoil.

When Competition is accepted as the supreme rule in the game of industry, it works best when left alone and not interfered with: but when Combination, having monopoly as its end, displaces it, then combination must be watched at every point; with administrative justice standing over it to lop off that superflux of wealth which has accrued to these monopolies from the progress of Society itself, but which so far has only served to make industrial gods of those who happen to be in parchment possession of its favourite seats without special merit or work of their own. Otherwise you would have little knots of monster millionaires in each nation cropping the world of its finest fruit, like the early Roman

Cæsars, and flinging the husks to the groundlings, laughing and jeering the while at the herds who turn themselves into industrial slaves to eke out a bare subsistence for themselves, or into rival gladiators to make a holiday for their masters.

But all this requires a Central Executive armed with power sufficient to carry it out;—and for that consummation, in a country depending on parliamentary majorities made up of conflicting interests, we shall have long to wait, I fear, as well as for an organization of Industry on laws at once National and Protective, and free alike from the weakness of Competition and of Free Trade.

END OF BOOK II.

PART III.

CRITICAL AND HISTORICAL.

CHAPTER I.

JOHN STUART MILL.

LEAVING Adam Smith and the problem of Free Trade and Protection behind us, we can now, without any essential interference with the historical evolution of our subject, jump at once to the revered name of John Stuart Mill; passing over Ricardo and the other economists of the intervening half century, on the double ground that in Mill we have not only the practical summing up of the separate labours of his predecessors, but, for the first time, the practical unfolding on a large canvas of all the fallacies concealed in germ in the original presuppositions of the Science bequeathed to him and his orthodox successors by Adam Smith, and retained by them in their fundamental outlines up to the present time;—as for example the symbol of the stick, instead of the wheel; the neglect, not so much of the *fact* of Consumption, which is, of course, always implied, as of any attempt to attach a *scientific value* to it as a factor whose variations affect all the other factors of the problem according to the laws which I have already laid down; and so on.

In my first draft of this division of my subject, I entered into a minute detailed criticism of the most important positions in Mill's work—his 'fundamental propositions' on capital, on rent, on wages, his 'tendency of profits to a minimum,' his remarks on the population question, on the effects of laissez-faire, competition, etc.,—but on re-reading it I found that in

themselves they would fill a small volume. It is from no disrespect, therefore, to the great position filled by Mill in the history of Political Economy, but simply owing to want of space, that I am compelled in consideration of the ground which still lies before me, to concentrate what I have to say solely on his cardinal principles, leaving to the student as a dialectical exercise the detection of the fallacies in his special arguments in each instance—a quite simple matter, I may remark, when once the inadequacy of his leading principles has been clearly set forth. When I say cardinal principles, I do not mean those *ultimate* principles of the Science which we have already discussed, but rather those smaller differentiations of them by which the progressive evolution of all Science proceeds. But I hope to afford space enough for all the detail that is necessary to make good the conclusions as to Mill's teaching which I wish to establish; and with this economy of space secured, I shall, I trust, then be able to discuss at sufficient length the few great general issues in which the smaller detailed argumentations of his separate chapters eventuate. In thus restricting the volume of my remarks, I shall perhaps, after all, best meet the inclinations of my readers, by most of whom at this time of day a detailed discussion of Mill's separate chapters, in the face of the fresh ground that has been occupied since his time, would probably be felt to be more or less belated.

In carrying out this programme, then, I propose, to begin with, to exhibit the cardinal fallacy which pervades that entire section of his work dealing with his fundamental propositions on Capital, Wages, etc., and in order to escape any tedious to-and-fro detailed argumentation, I am anxious to find some mode of presentation whereby these fundamental propositions of his will only have to be stated to be seen to destroy one another without argument. And I shall assume that I have succeeded, if I shall make it apparent that of each of the propositions on which he bases the derivative doctrines

of the Science, the exact *opposite* is equally true: much in the same way as a system of Astronomy would be proved to be false without detailed analysis, if it could be shown, for example, that basing itself professedly on, say, a centripetal force alone, it could only fully explain by the addition of an exactly opposite force,—the centrifugal,—the movement of each planet in its orbit. Now this is the case with all Mill's fundamental propositions respecting Capital, Wages, Savings, etc., as indeed we should know it must be if my earlier chapters re-constituting the Science on the symbol of the wheel, instead of on a divided straight line, should prove to be true. For, beginning by leaving out Consumption as a factor to which a definite, and not merely an indeterminate, value and expression must be given, he cut the wheel of wealth in two, and throwing one half away, had only the other half left with which to operate in the construction of the laws of his Science: precisely like our perpetual-motion schemer, who while giving a definite scientific value to mechanical power, gave none to mechanical friction, and with equally disastrous results. And accordingly we have only to tabulate his propositions, one after another, to see that having left out half the wheel, he has in each case left out half the truth, and so rendered his whole system practically false. Let us take them in order. And as key-note to all the rest, take his statement that 'the limit of wealth is never deficiency of consumers, but of producers and productive power.' Now I must confess that had this sentence, taken in connection with both the economic laws and the practical consequences which flow from it, been penned by any other writer than John Stuart Mill, I should have had no hesitation in charging him with a deliberate intention to deceive his readers by a piece of intellectual sleight-of-hand, as discreditable to a philosopher as it might be admirable in a conjuror. For if he means by a deficiency of consumers, the number of open mouths ready to be filled if they could have what is produced as a free gift, then the remark is both

banal and irrelevant, inasmuch as Political Economy assumes that what is consumed must be purchased and paid for, otherwise it belongs to the ethics of charity, and not to the laws of Political Economy. But as, on the one hand, he was not the fool to make such a statement, and, on the other, was not the trickster who would willingly lay a trap for his readers, our only alternative is to assume that this sentence ought to read as follows, 'the limit of wealth is never deficiency of *purchasers*, but of producers and productive power'—an absurdity so transparent that it needs no refutation. And yet this single sentence of Mill's has proved a veritable intellectual fly-trap to most of his readers from his day to our own; and when once they have walked into it, innocently and unsuspiciously, he has captured them as effectually, and pledged them to the acceptance of each of his 'fundamental propositions' in turn, as surely, as if they had been physical chains which he had wound round their necks and ankles. For we have only to listen to some of the deductions drawn by Mill from this sentence as prologomena and first principles of his system of Political Economy, to judge of what kind of future a nation is likely to be committed, whose economy is built on them from basement to roof.

The first of these fundamental principles is, that 'Industry is limited by Capital,' or in other words, that the amount of wealth production is limited by capital. So far so good, but how much truth does it contain? Clearly only half the truth, for all we have to do is to turn it the other way round, and make it read 'the increase of Capital is limited by Industry,' *i.e.* by the amount of wealth that is produced, and we have a proposition which is equally true, and the exact opposite of the first! How dangerous a half truth of this kind is likely to prove when erected into a first principle on whose practical deductions a nation is prepared to stake its economic future, needs no enforcing. And all because Mill split the wheel of wealth in two,—into Production and Consumption,—

and imagined that he could throw away the consumption half with as much impunity as a butcher would the entrails of a sheep,—and yet expect his science to be a living and not a dead one! Now it is Mill's neglect of Consumption, it is to be observed, that makes his statement of his first fundamental principle so inadequate, inasmuch as it is only when things are purchased for consumption that they will *continue* to be produced, and further, that it is only out of their sale that the capital necessary for their future production or increase can arise. And the fact that two exactly antithetical propositions may be equally true, but that the whole truth lies in the combination of the two, would itself be a proof that any science which is founded on the one half, after deliberately throwing away the other, must be false.

As further evidence take the second principle, that 'capital is the result of saving,' and it will be found that its opposite is equally true, namely that 'capital is the result of spending'; for if there is no one with purchasing power to buy them, commodities will not be produced, and capital will neither be wanted nor will it accrue. Or, again, take his proposition that 'every addition to Capital gives to Labour either additional employment or additional remuneration,' turn it completely round, and it will be found to be equally true that 'every addition to Wages and Labour gives to Capital either additional employment or additional remuneration';—additional employment, to keep up the increased demand on it for consumption which an increase of wages involves; additional remuneration, inasmuch as every additional hand employed where it is needed adds something to capital over and above its keep; so that if it is true that wages are limited by capital, it is equally true that capital is limited by wages. Then take again his much debated proposition that 'a demand for commodities is not a demand for labour,' and again we shall find that its categorical opposite is equally true, and that 'a demand for commodities *is* a demand for labour,' but for labour

at the second remove, as it were; the labour, namely, that is employed by the champagne grower or the velvet manufacturer, to whom the demand for their respective commodities is sent. As for the other implications of this proposition, they all have as their object the demonstrating of the necessity of producing and saving, but not of consuming and spending, for the increase of the wealth of the world; and have already been refuted in our earlier chapters, where we have demonstrated the co-equal necessity of both; and so need no longer detain us.

In the same way, too, the Ricardian proposition of Mill in regard to Rent, namely that it is the extension of the 'margin of cultivation' that is the cause of its increase, may be turned round and its exact converse will be found to be equally true, namely that it is the increase of rent which extends the margin of cultivation; and this, for the simple reason that as land must always be used in connection with capital and labour, and as capital and labour will always give more for land the more it helps them to increase their products, the consequence is that they will want more land, even if it is of a poorer quality; and so it is the increase of rent which they are willing to give that is the cause of the extension of the margin of cultivation, and not *vice versâ*. Again, if we take Mill's demonstration that the tendency of profits in advancing industrial societies is steadily towards a minimum,—say to a profit of one per cent. or less, or perhaps nothing at all,—and premising that it was in the same stage of industrial development as that in which he himself lived that he expected this result to occur, we have only in order to show its falsity as well as that of the system from which it was a deduction, to bring together the two sets of circumstances which he instanced as preventing or retarding this tendency of profits to a minimum, when it will be apparent without further argument how absurd and paradoxical his whole demonstration is. On the one hand, he asserts that profits will be prevented from falling to a minimum by all that is economically bad, by anything that wastes capital in short,—

as for example its being blown away in bubble companies, or in war, or in commercial crises, its destruction outright by fire or flood, by the absence of security of property, by corrupt courts of justice, by unsound and risky credits, by the piling up of Government loans, and by a stagnant population. All these, says Mill, will actually make profits rise, or at worst will prevent them from falling to a minimum. This, I imagine, will be news to most business men! On the other hand he declares that profits will rise, or be prevented from falling, by what all will admit to be essentials of a sound and progressive trade, namely inventions and improvements in machinery and productive processes generally, and the reduction in the cost of all things produced by them in consequence, including food. So that it comes to this with Mill, that whether a country is turned into a desert by the destruction of its capital in war, or by fire and flood, or what not, or is made so fertile by inventions and better processes that things become as cheap as if they fell like manna from heaven, will make no difference to profits! Now this gives us a glimpse into the reasons that have caused Mill to entangle himself in these stultifications and contradictions. The first is his old fallacy that it is floating capital, or money bearing interest, that is the cause of profits, instead of the efficiency of the instruments of production, or fixed capital, in which this money is invested; and this is why he declares that an actually running manufactory or mill has no effect either on profits or wages!—a proposition farther than which, I submit, absurdity could not go. The second reason is his confounding the value of floating capital or money when there is no business doing, with its value when trade is enjoying an abounding prosperity; much in the same way as we have already seen the orthodox economists confounding the difference between the cheapness of a bankrupt stock, and the cheapness that comes from a new invention or improvement in machinery, or from a new chemical process. The value of money may be high, and its interest as much as

7 or 10 per cent. because trade and credit are shaky, as was the case before the great Gurney bank failure of 1866; on the other hand it may be high when trade is prosperous and expanding, inasmuch as industrial capitalists will readily give 7 or 10 per cent. for accommodation if they can see their way to a profit of 15 or 20 per cent. for the use of it. Or again, the value of money may be low because trade is so stagnant that no one dare venture to use it, as was the case after the Gurney failure when it sank as low as 2 per cent.; but it may also be low because business is at once so sound and so brisk that the money returns from industrial investments pour into the banks in greater streams than they are taken out. Now, with Profits it is quite different. You cannot have a high rate of profits both when capital is blown away in wars and bubble companies or is destroyed by fire or flood, and when trade is prosperous, credit good, new means of transport opened up, and new improvements and inventions are constantly being introduced; inasmuch as in the one case the instruments of production themselves are destroyed, and the powers of Nature which function through them and give their services gratuitously to man, are in abeyance; whereas in the other case they are in full swing and co-operating with him with all their might. That Mill should not have seen this distinction, but have kept labouring away at his belated idea that mere circulating capital, that is to say floating capital *not yet* invested in these instruments of production, was either going to cause profits to fall to a minimum or to prevent them from doing so; and further that he should have declared that fixed capital, that is to say these very instruments of production themselves, had no influence whatever either way on profits or wages, are only other instances of how thoroughly unsound the orthodox economy in general, and this special system of Mill's in particular, are through and through.

So far then we may say that all those laws of Political Economy which hang on these fundamental propositions of

Mill's, and which are got by his having cut the wheel of wealth in two, and thrown one half of it away as useless, must be false. And parenthetically, we may remark in passing, that the very fact that these fundamental propositions can each be turned into its opposite with equal truth, is itself a proof that a true science of Political Economy must be constructed on the symbol of a circle or wheel; for there is no realm either of mechanics, physiology, or psychology, in which antithetical propositions can be asserted of a thing with equal truth (and where the full truth requires the equal recognition of both) but must in its dynamics follow the laws of a circle or wheel.

It is evident, then, without further analysis, that laws of Production which end in such point-blank opposites as the above, can at best be only half truths; and that when used, as they are by Mill, as premises for the deduction of other laws of the Science, these deductions must be false also, and owing to their insidiousness, must be more seductive than if the premises on which they were founded were altogether false.

It is the same with the laws of Distribution, on which he specially prided himself as his main contribution to the Science. Beginning by assuming that the whole product of Industry is divided into Rent, Profits, and Wages, he first institutes separate and independent inquiries into the laws regulating the share of the product which shall fall to each of these in turn, and when he has discovered them to his satisfaction, he then proposes, in a separate chapter, to demonstrate their truth by showing how they will behave in combination, when thrown on an enlarged screen and seen in the march of industry as a whole. Now if we can show that in this section of his work he everywhere mixes up Politics with Economics, not only in the unnatural combinations of the premises from which he starts, but in the economic laws of distribution which he illustrates through and by means of them as well, it will be sufficient of itself to make us reject his conclusions, without taxing unduly the reader's patience by a detailed analysis of

each separate argument. The following are samples of the impossible combinations which he posits as his premises. The first is, that Population is increasing but that Capital and Inventions are stationary: the second, that Capital is increasing but Population and Inventions stationary; the third, that Capital and Population are both increasing, while Inventions are stationary; and the fourth, that Inventions are increasing but Population and Capital are stationary. Now to begin with, these combinations are as impossible as if he were to assume one or other organ of a living body to be dead and rigid, while the rest were pursuing their natural functions; as unnatural, as the centaurs, or mermaids, the winged bulls of the Assyrians, or the eagle-headed and dog-faced gods of the Egyptians; as contradictory, as if he were to assume a mouth the size of a crocodile's in combination with a stomach the size of a minnow's, the wings of a bird with the bones of an elephant, or aught else that on the face of it is fantastic, irrelevant, or absurd. And it is evident, is it not, that with a medley of political, social, and economic elements thrown into the melting pot in the very premises of your Science, you could bring out whatever fantastic laws of Political Economy in particular you pleased, just as you could in reference to fish, bird, mammal, or man. For how, for example, can we imagine Population to be increasing and yet Capital and Invention stationary, when the effect of an increased population is to *increase* the capital drawn from their labour, and to *stimulate* invention to enable it to produce things at the least cost? How, indeed, unless you have mixed up some political law or tax with the argument, which will prevent this natural result, but which belongs to the art of expediencies of Politics, and not to the Science of Political Economy? Or, again, how can we imagine that when Capital is increasing, Population and Invention can be standing still, when the normal effect of an increase of Capital is an increase of products, and of products an increase of population keeping pace with them, together

with improvements and inventions as well? Or thirdly, how can we conceive of Population and Capital both increasing, and yet Invention standing still, unless improvements and new processes are forbidden by custom or religion, or prevented by tyranny or extortion, or other intrusions of outside laws or powers? Or lastly, how can inventions and improvements be assumed to be progressing, and yet Capital and Population to remain stationary, when the very first effect of an invention is an increase of production, and of an increase of production an increase of the capital which comes from it, as well as of the population which naturally attends it; unless again, the increase of capital is lopped off by taxation, or the population is kept down, as in France, by prudential motives growing out of the laws of inheritance, or, as elsewhere, by marriage laws which have the same effect.—all of which are matters of Politics and political expediency, the subject-matter of legislation and not of a science of Political Economy. The truth is, you might as well expect to draw scientific conclusions on the distribution of wealth from mixing up War with Economics, where the distribution takes place according to the will and caprice of the conqueror, as from a medley of political and economic factors welded into unnatural combinations as fantastic and impossible, in the strictly economic sense, as are these of Mill. It would be easy, again, to show that Capital might remain stationary when Population was increasing, if you allowed governments to skim off all excess of income over a rigidly defined amount by a tax which would crop all overgrown incomes to a level, like a hedgerow; or again, to show that Population might remain stationary when Capital was increasing, if you made a law that all excess of children born yearly over the prescribed number should be put into a lethal chamber. These would be purely political results from which, it is evident, no laws of political economy could be deduced. Now had Mill not split the wheel of wealth into two, and thrown one half of it (the Consumption half) away, before

setting out, but had divided his subject-matter simply and naturally into Production and Consumption, taking as the factors of Production its natural divisions into the Powers of Nature and the Powers of Man, and representing Consumption as strictly co-ordinated with it, he would have seen, as we have demonstrated sufficiently in our early chapters, that not only must Capital, Population, and Inventions, increase or decrease *together* as the wheel increases or slackens its speed; but that Rent, Profit, and Wages, also must all rise or fall together; of which fact, indeed, as we have already said, the universal experience of the world in all ages, in what is known as good or bad times, practically gives us proof; and that not only is no other law of the distribution of wealth possible in a pure *Science* of Political Economy, but that there is no other law of distribution on which a practical *Art* of Political Economy can be based;—all unnatural combinations like those he suggests being palpably due to the action of politicians, legislators, or conquerors, who like mischievous boys have for their own private ends inserted obstructive pebbles at this or that point between the wheels. He would have seen, in short, that he was trying to found the laws of the physiology of his science on casual factors in its pathology, instead of explaining these facts of its pathology by the known laws of its physiology; with the result that he has not only muddled the science which he was seeking to irradiate, but has falsified its laws and practical conclusions as well.

But these unnatural combinations are not the only examples of the confusion into which Mill has fallen through mixing Politics and Economics together, and treating them as if they were the natural offspring of the pure laws of Political Economy. He has also confused the subject by playing fast and loose with the areas which he selects for his illustrations and examples. If, for example, you take France as a self-enclosed unit cut off from the rest of the world, you may show that while capital is progressing, population is stationary, but if you take as your

unit the whole of the foreign lands through which her productions circulate, you will find that this increase of capital in France has made provision for a corresponding increase of population abroad, through the increase of labour which it has set in motion to pay for these productions. On the other hand, a progressive increase of population may co-exist with almost a stagnation of the capital belonging to the nation, as in the early days of America and the Colonies, where the increase of population was largely helped by the capital which, although invested there, was owned by England; or as in the Roman Empire, where the vast populations of the provinces were maintained by the capital, not of these provinces, but of financiers who were citizens of Rome. It is the same with Invention, and improvements in the arts of production; and we can readily understand how great an increase of population was made possible in Japan, for example, when she adopted the arts, the inventions, and the civilization of the Western World. But Mill, by at one point admitting the area covered by foreign commerce into his argument, and at another excluding it, has falsified all the laws and deductions which he has founded on this procedure. It was open to him either to select a single self-enclosed area or nation as his unit of investigation, or a world of nations trading with each other, but it was not open to him to step from one to the other and back again as it suited his argument. Had he done so consciously it would have gravely impugned the high impartiality which he owed to himself as a philosopher, but of this no one could accuse him. It confirms, rather, Carlyle's estimate of the 'saw-dustish' nature of his intellect and his want of penetration, in spite of his scrupulous intellectual candour and his great logical, as distinct from his purely intellectual, power.

As a further proof of this want of penetration, take the third great cardinal error in his system, namely his making the laws of Political Economy play between, and rest upon,

two categories so shifting and uncertain in their incidence and operation as the cloudland of Rent on the one hand, and the quagmire of Population on the other. For if we consider it, the laws of each of these factors will cut both ways according to circumstances; and yet what have circumstances to do with the eternal laws of Political Economy? If one man, for example, owned all the land of the world, he could bleed both capital and labour until, as in the excited vision of Henry George, he had driven them into the sea or compelled them to live on little more than the roots and herbs which they could pick up by the wayside. If, on the other hand, the land of the world were entirely parcelled out into petty peasant properties of three to five or twenty acres each, as in France, giant capitals concentrated in single hands could skin them so effectually of their profits and wages alike, that they, instead of the capitalists, would have to turn out into the highways and slums of the world, to live on what crumbs they could pick up from their masters' table; as, indeed, not only the condition of the peasantry in many Continental and Oriental countries under the power of the money-lenders, but even of stalwart American farmers with their hundred-and-sixty acre freehold farms, squeezed by the Beef and other Trusts, already gives foretaste and token. So, too, Population has contradictory effects according to circumstances. When each labourer or wage-earner is dispersed and isolated, concentrated Capital can sweat them all alike down to a 'bare subsistence' wage, as easily as if they were slaves or cattle, and, indeed will always do so unless the pressure of a strong public opinion forbids it. On the other hand, when this vast miscellaneous population of wage-earners instead of remaining isolated begins to organize and roll itself up into Trades Unions, and when these, in turn, shall have consolidated themselves into one gigantic all-embracing world-trades-union, then you will have the spectacle of Capital as gradually but surely squeezed of its profits as Labour was before of its wages, until nothing is left it but bare

interest; and in the end, if the world-population of wage-earners have tenacity enough to stick together as one man, nothing would be left for the capitalists but to take to the highway, as the wage earners had to do before them, and to merge themselves in the ranks of the ordinary working-men. And accordingly we find Mill contending that if the working men will, when population increases, only insist on maintaining their accustomed standard of living, the capitalists will have to make good the increased wage bill out of their profits; if, on the other hand, the excess of population causes the working men to struggle like demons to obtain work at any wage, then, says Mill, the capitalists will keep their profits, and leave wages to suffer; and so on. Now as the object of the Political Economy of Mill and the orthodox Economists generally in an industrial age is mainly to discover the fixed and stable laws which define the relations between Capital and Labour, how can they even hope to succeed when they make them depend and rest on Rent on the one hand, and Population on the other, each of which will lead to precisely opposite results according to the way in which it is handled? From all of which it is evident, is it not, that Mill's laws of the distribution of wealth, with profits rising and wages falling when population behaves in one way, and the opposite when it behaves in another; with Rent squeezing Capital under one set of conditions, and Capital squeezing Rent under a different set; and with Population squeezing or being squeezed by both according to circumstances; must be as inconstant, unstable, and, in effect, practically false as his contradictory laws of Production.

The last of Mill's great cardinal fallacies is his splitting up 'Freedom of Contract' into two, and throwing one half of it away, as we have already seen him do when he threw away Consumption, under the belief that it was an unnecessary factor in a Science of Political Economy. Now as 'freedom of contract' is everywhere and always the ultimate postulate and presupposition which Mill and all his successors of the

academic and orthodox schools insist on the reader accepting before they ask him to follow them through the course of their demonstrations, it is evident that if we find them playing fast and loose here, all the dependent propositions which hang on this postulate may be discarded without further remark. And yet this is precisely what they all have done, and still are doing. For freedom of contract, it is to be observed, always carries with it a freedom to *combine* as well as a freedom to *compete*, inasmuch as the economic commodities which are the subject-matter of the contract are not mere dead drift-wood floating helplessly hither and thither as on a tide, but are always a personal property in the hands of living men,—as much so, indeed, as their hands or feet,—and when once acquired will be held as tenaciously. Instead of being allowed to drift idly away, they can on the contrary, when parted with or sold, be either put up to competition in an open market by their owner, or merged in *combination* with the property of other owners, according to which course is likely to bring the largest returns. And hence if we find, as is indubitably the case, that the whole course of industry is daily tending more and more in all advanced countries to the formation of combinations of individual capitals, and not to the competition of these capitals; that it is tending as well to the combination of the wage earners in Trades Unions, instead of their competition with each other for work; and if we note further that as all combinations which extinguish competition become monopolies, and monopolies, in turn, give rise to profits, wages, or rents, respectively, which like Government taxes, have elements of force, power, or caprice about them which cannot be reduced to economic law, and have nothing therefore to do with the pure science of Political Economy;—if we find all this, and further, if we can show that the tendency of profits and wages in different occupations, whether agricultural, manufacturing, commercial, or what not, is not to *equality*, as the orthodox Economy contends, but on the contrary to *inequality*, we shall

see reversed the most important of all the practical conclusions of the science;—and all because the orthodox economists have persisted in ignoring one half of what is implicitly involved in their own premise of the freedom of contract, by retaining the effects of competition, but throwing away those of combination. I propose then to show on purely independent grounds that if we resolve freedom of contract into its necessary implication, as including combination as well as competition, we shall find the tendency of all economic things, Wages and Profits included, like that of all things else in this world operated by men (and not the subjects merely of purely physical laws) is towards Inequality, and not as the orthodox Economists contend, towards Equality. If I shall succeed in doing this to the reader's satisfaction, I shall at last have demonstrated what I announced at the beginning, namely that the orthodox Political Economy is everywhere made up of theoretical half-truths, and therefore that its practical conclusions are not only false here and there, but false altogether; and that the reason of this is that it has everywhere split up its premises into two halves, and thrown one half away as useless;—has split up the wheel of wealth into Production and Consumption and thrown consumption out; in Free Trade, has split up the population into producers and consumers, and catered for the consumers alone, throwing the producers overboard to shift for themselves; has split up 'freedom of contract' into competition alone, and left out combination altogether; and further, that when it has done this, it has replaced the all-essential halves which it has thrown away as useless, by bringing in foreign elements of purely capricious Power or Force,—such as politics, legislation, custom, etc.,—which have nothing to do with the Pure Science of Political Economy; and finally, that where it ought to have brought in these foreign elements proper to the science of Civilization as a whole,—namely, in its Applied Science,—it has left them out altogether, and so has rendered all its practical conclusions false and unworkable.

But as the proof of the tendency of all things economic to Inequality rather than to Equality, is so important and ultimate for a true science of Political Economy, I propose to devote a special chapter to it; and hope to be able to bring forward numbers of smaller fallacies common to Mill and his orthodox successors, which I have not had an opportunity of touching on heretofore, for the reader's consideration.

CHAPTER II.

ON THE TENDENCY TO INEQUALITY.

IF we keep to our division of the economic instruments of Production into the powers of Nature and the powers of Man respectively, and if we assign their products to Rent, Profits, and Wages, and then consider how these products tend to distribute themselves among the individual landlords, capitalists, and wage-earners respectively, the most casual inspection will show that they everywhere tend to *inequality*, and not as the orthodox economists contend to equality; as indeed the unequal fortunes of individual men in every class of a community where freedom of contract prevails, gives proof. Rent, of course, is with them an admitted exception to their general doctrine of the tendency of economic things to equality; the incomes received from land being palpably as unequal as are the respective degrees of fertility of its different units of soil, their distance from central markets, the facilities for transport of the product, the size of holdings, their intensive cultivation, and the extent to which the large holdings will permit of the application of labour-saving machinery with its reduction of working costs, and so on. But it is precisely the same with Profits as with Rent, as will be apparent on a moment's consideration. For Profits depend not on a different but on precisely the same class of considerations, namely on the difference between rival manufacturers of the same class

of goods in respect to the relative powers of their instruments of production to reduce costs;—as, for example, on the superiority of the machinery used by one manufacturer over another (especially when it is protected by patents), the access to central markets through the facility of transport which relative advantages of situation give them, their proximity to the sources of raw material, the differential advantages in the matter of cheap motor-power, and above all the saving in costs of all kinds which huge capitals concentrated in single hands in favoured localities make possible—capitals which in themselves form monopolies as strongly entrenched almost as natural ones. To these may be added the cumulative effects of the 'goodwill' which comes from the reputation of old-established firms, of trade-marks, etc., as well as the effects on the imaginations of men of advertising on the great scale, and so on. Each and all of these factors, it is obvious, must make steadily for inequality of profits, and must operate as effectually between nation and nation as between the different individuals or trades in the same nation. And the question we have now to ask is;—what are the special considerations which have made the orthodox economists believe that Profits tend to equality, when they so obviously if left alone tend steadily and cumulatively to inequality. They are mainly, I think reducible to four:—

1. The neglect of the principle of Combination, which as we have seen is as much an element in freedom of contract and *laissez-faire* as is the principle of Competition.
2. The illusion of keeping their eye on the dead *products* of industry, instead of on the *instruments of production* from which they proceed, and on the actual game which is being played by the capitalists themselves who own these instruments.
3. The neglect of what we may here call the incidence of Power, or, in other words, of the political or other

forces in connection with which the wheel of wealth functions, and which in one form or another always make themselves felt in the distribution of wealth.

4. The old illusion of the *divided* stick, which is the symbol, as we have seen, lying at the base of all the doctrines of the orthodox schools.

To begin, then, with farmers' profits. These undoubtedly tend to equality, but that is because the landlords stand by with their shears ready to crop off all excess over the accepted standard as rent, and so force profits to an unnatural appearance of equality by what is in its essence as much a tax as any income tax can be; as indeed would be manifest at once if we imagine the landlords' rents removed, when the profits per unit of land occupied (which is the essence of the problem) would be found to be as unequal as the qualities of the soil, or the hills and dales of the landscape.

But it is the profits from manufactures and other industries with which we are mainly concerned, for it is these on which the landlords are supposed to keep their eye when determining how much profit they will allow the farmers before applying their shears in shaving off any excess as rent. Now what the orthodox economists contend in discussing the tendency of profits to an equality in agriculture and manufactures respectively is, that were the landlords to cut down the farmers' profits below this rate, capital would leave the land, to be invested in manufactures. On the other hand, were the landlords disposed to allow the farmers more than the rate current in manufactures, capital would compete for land and be driven away from manufactures until the rates in both were reduced to an equality again. This is the theory, and we will return to its implications later on in this chapter. In the meantime if we examine the considerations which have made the orthodox economists believe that the profits of different manufactures naturally tend to equality, in spite of the fact that the instruments of production from which

these profits proceed are of all degrees of inequality in power,—and therefore in the scale of costs at which they can turn out their products,—we shall find that they all conspire in their various ways to produce an illusion of equality. The first is that all articles or commodities of the same quality and kind fetch an equal price in the great wholesale markets of the world, whether made by hand or by machinery, whether carried overland in carts or by railroads, canals, or ocean steamers, whether grown on old and exhausted or on rich and virgin soils. This may seem a small matter in itself and scarcely worth mentioning, but taken with other impressions pointing the same way it has its effect notwithstanding. The second is the tendency to imagine that because the interest on capital *in the abstract*, or in other words on floating capital, or money, tends to a general level of equality in any particular nation, that therefore the profits of capital *in the concrete*, that is to say of money invested in this or that productive industrial undertaking, must tend to equality also. But is it not the accepted doctrine of the orthodox economy that profits are made up of the 'wages of superintendence' and of 'risks' as well as of interest? And if so, and if wages of superintendence are as unequal as are the different abilities and responsibilities of men in the same line of work; and if risks are as unequal as are the different undertakings in which men hazard their capital: how *can* profits tend to equality? On the contrary they must be as unequal as one field is unequal to another in fertility, or one mine to another in yield on an equal outlay of costs. Even the interest that has to be paid on the money required to finance industrial undertakings tends to inequality; inasmuch as it varies inversely with the security, whether you take individuals or nations. One man can borrow as much money as he requires at 3 or 4 per cent, another only at 5, another at 10, another only at 50,—as those who have had the misfortune to fall into the hands of moneylenders can testify. It is the same with nations, some

of whom cannot borrow on any terms, unless indeed, as in pawnbroking, they assign some definite asset, as of customs duties or what not, to be held in pledge for the loan. But if money thus tends to inequality in the borrowing, it tends much more to inequality in the uses to which it is put in the spending. For the moment it begins to be used, whether in banking or in actual industrial operations, it ceases to function merely as money in general or in the abstract, (and this is the only sense in which Interest may be said to tend to the equality which has misled the orthodox economists), and becomes boxed off, as it were, in definite amounts in the hands of different individuals; and then it always tends to inequality. The difference again between, say, £100 in the hands of one man, and a hundred separate pounds in the hands of a hundred different men, although the aggregate amount in the two cases is equal, is enormous. For the £100 concentrated can both outbid and outsell the hundred pounds dispersed. It can buy in the cheapest while they must buy in the dearest market, and can sell in the dearest while they may have to sell in the cheapest. It can take advantage of their necessities to ruin each of them in detail, for it can bide its time and stand under shelter until the storm and stress of immediate pecuniary necessity passes, while they must go out in the storm or perish. It in effect has rolled itself up into a concentrated ball, and so falls under the law of Combination, while they remain isolated pellets, and follow the law of Competition. Hence it can make itself king, while they are reduced to the position of suppliants. It has entered on the road which may lead to the fortunes of a Rothschild, while they linger or halt in the by-paths of poverty. And yet each step, it is to be observed, has been taken under the orthodox economists' most sacred shibboleths, namely of 'freedom of contract' and *laissez-faire*. Where then is the tendency to equality?

But it is not only the tendency of undifferentiated or floating capital to an equality of Interest in the central money markets

of the world, which has misled the economists into believing that the same is true of fixed capital, that is to say, of money capital when invested in machinery and buildings in definite places, in definite amounts, and with definite instruments of production (and which, as we have seen, varies according to the aggregate relative strengths of these instruments of production); they have been misled also by the apparent fact that all the shareholders alike, great or small, in joint-stock undertakings receive the same rate of interest, say 5 per cent., from their investments; forgetting that the original proprietors sitting at the head of the table, after having turned their property into a public company, still get their 20 per cent., say, on the shares they have allotted to themselves, while the rest who sit 'below the salt,' only get their 5 per cent. after all. The nominal equality, in a word, turns out to be a real inequality, and profits instead of tending to equality, as at first appeared, tend really to inequality.

So far then we may sum up by saying that the orthodox economists in their belief that Profits tend to equality have been misled by keeping their eyes fixed on the dead *product* rather than on the living *productive powers* of industry; on what befalls goods, commodities, and interest, in central markets where unrestricted competition has full and undivided sway, rather than on the instruments of production and the living human beings who own them, and who far from making haste to offer them up to unrestricted competition, do all in their power to nurse them to the point where they can make whole or partial monopolies of them, that is to say, to the point where the effective power of Combination has free play. And it is precisely because when men have got a 'good thing'—whether from some natural or scarcity advantages, or from some effective combination of capitals which controls the instruments of production of the commodity in which they deal,—they intend to keep it to themselves, that, given time enough for their full evolution, the profits must end in inequality.

But the main reason, perhaps, why the orthodox economists have persistently upheld the doctrine of the tendency of Profits to an equality is, that it is a deduction from what we have already seen is the fundamental illusion on which the whole of the old economy is constructed, and from which all its leading propositions are derived, the illusion, namely, of representing the capital of a nation as a rigid rod of definite length, whereby if profits stand at the rate, say, of 25 per cent. at one end and at only 5 per cent at the other, an average can be struck at 15 per cent. in the centre of the rod; and the different capitals functioning in industry can then be represented as flowing backwards and forwards between the two ends, flooding the end of high profits and being withdrawn from the other, until the pressure of competition by reducing prices at the one end and raising them at the other, makes the profits of all alike settle down to a common level of equality.

Now this method of 'splitting the difference' in things that are by their very nature individual and personal, is the most crude of all scientific processes, and in using it the orthodox economists have at a stroke stripped off all those differential advantages and inequalities between one industrial undertaking and another which it is the very game of business men to capture, and which once captured are used as stepping-stones to still further economic advantages—advantages, it is to be observed, which are not pursued with the philanthropic object of redistributing them again among less fortunate rivals for the purpose of putting the profits of all alike on an equality, but entirely with the object of keeping them for themselves. To lop them off, therefore, by striking an average among them, is to lop off not what is accidental, but what is essential in the very process of money getting; and is not only a cheap and easy but a most fallacious way of making profits tend to equality. And as for capital flowing backwards and forwards from one industry to another according to the scale of relative profits, until the profits are reduced to an equality,—this is

equally illusory. For the amount of capital in a country is not, as we have so often repeated, a fixed and rigid thing, which cannot leave one occupation without stripping another bare, but, on the contrary, when put on the wheel of wealth, becomes as elastic as a piece of rubber when consumption is stimulated and the wheel is made to revolve faster; so that all businesses whatever that can show a working profit, *reproduce* in the act each its own capital; and however much of it may overflow into the more favoured and profitable trades, the rest are not necessarily denuded, but on the contrary their capital is increased. It is only when the wheel slows, and all businesses are alike depressed, that the least favoured ones find difficulty in keeping afloat through being denuded of their capital; and then it is not because their capital has been transferred to the more prosperous trades, but more probably because it has been extinguished altogether. It is only when rival traders in the *same* line of business meet as combatants, that the one trade can denude the other of its capital or extinguish it altogether by taking away its customers from it;—but in any case where is the tendency to equality? On the contrary, it is to still greater inequality.

But the most paradoxical perhaps of all the reasons which have persuaded the orthodox economists into the belief that the profits of capital tend to equality, and one which comes, too, from their fixing their eye on the *products* of industry rather than on the *instruments of production*—on goods and prices, rather than on the land and machinery and the men that own them—is their making capital the result of *saving*, that is to say, of a mere negation, like the talent that was hidden in the napkin; while at the same time they have made it the positive and active agent in the production of wealth. But to see how this paradox has operated, it is necessary to retrace the historical evolution of the place occupied by capital in the orthodox economy. The Physiocrats and Adam Smith, it will be remembered, made Land the primary and active

agency in the production of wealth, inasmuch as the earth was the fruitful womb and mother of all the wealth which was afterwards worked up by machinery and labour into its infinite variety of forms. Capital, on the other hand, they represented as coming out of what could be *saved of the product* from the maw of immediate consumption, and turned into money. In other words, Capital had to come, by a process of saving, out of the superflux which the landlords shook off from their rents for the keep of the rest of the community; and so was a dependent or hanger-on of Rent as it were, on whose leavings, in short, it had to subsist or starve. But in the interval between Adam Smith and John Stuart Mill, Ricardo and others thought they had discovered that Rent, on the contrary, was after all really the dependent and hanger-on of Capital, inasmuch as it had to wait until Capital was served, and then to take the leavings for itself. But while accepting this position of Ricardo's, the orthodox economists since his time, including Mill, have continued to cling to the idea that this same Capital which had now become the generative and living initiative factor in their system, was the result of saving, that is to say, came out of a portion of its own dead *product*, instead of out of the *active powers of Nature* embodied and realized in its machinery and processes; in the same way as the Rent, which Capital supplanted in their system, had come out of the powers of Nature in the soil. It was as great a stultification and anomaly as if they had represented the generative power of a tree as coming out of the savings made from its own fruit! And with result for their system, what? This namely, that having already fallen into the error of making Profits tend to equality through the illusion created in their minds by keeping their eyes fixed on dead products instead of on the living instruments of production from which they proceed:—on the equality of the prices of commodities in the central wholesale markets, on the equality of interest in the central exchanges, as well as on the nominal equality of

profits in joint-stock concerns—they were now logically obliged to assume as well that whatever part of these products was set aside as savings (in other words Capital), must tend to equality also; forgetting, as we have seen, that in all these cases alike the equality is got either by striking an *average* among a number of real inequalities of prices and interest and profits, or by watering them down and subdividing them into equal shares, as in the case of the joint-stock companies; forgetting, that is to say, that it is only products *in the abstract*, and interest in the abstract, that tend to equality,—not the separate bits of concrete product, the separate bits of capital, which in actual fact are what are bought and sold, and which, as we have seen, are always inequalities; and that it is precisely the accumulation of these smaller inequalities which leads some men to fortune, while others remain in poverty. But even if we admit that the products of industry,—say, wheat, copper, coal, etc.,—tend to equality in the large central markets and exchanges, it is evident that the separate instruments of production themselves,—the land, the mines, the favoured situations, etc.,—must be as unequal in the profits they yield as are the fertility and yield of the separate pieces of soil, the separate mines, and the different situations from which they proceed. So that although speculation in the *products* of industry may *temporarily* lead one man to fortune and another to poverty, while leaving the great mass of operations as a whole on the same level as before, (as gambling on even chances does the great bulk of the players), the possession of *the instruments of production* from which profits proceed, form *permanent* inequalities as great as are the relative strengths of these instruments; and even when the rival possessors of these kill each other out by competition, the inequality is only deepened, not equalized; and when some of these combine instead of competing, and succeed in extinguishing the others altogether (as the great Trusts in America have done), the result can with no more justification be regarded

as a tendency of profits to equality, than the reduction of a nation to a desert can be regarded as a tendency to peace, or than the reduction of the nobility of France by Louis XIV. to a common level of dependence on himself, was a tendency to equality. And the upshot of it all is, that although the dead products of industry, which are delivered over to pure competition, will tend like all dead things to equality, inasmuch as having been already plucked from their stems or set free from their workshops, they have no longer any roots anywhere, but will move hither and thither according as chance, or the incidence of market prices determines; the fixed capital, or instruments of production themselves, on the other hand, from which they proceed,—like trees and animals which have their roots in definite soils and environments,—not being transferable, cannot be so shifted; and their permanent yields in consequence (or in other words their profits) must, until they are extinguished altogether by competition, tend to inequality. The orthodox economists accordingly, in making Capital the result of a mere negation—Saving—while at the same time making it function as the great controlling power on which both Rent and Wages have to wait cap-in-hand until it is served, have not only stultified the very first principles of their Science, but have helped to entrench themselves the more strongly in one of their greatest illusions,—the tendency of Profits to an equality. Had they, on the contrary, made Capital the outcome of the active powers of Nature embodied in their machines and inventions,—as the Physiocrats and Adam Smith made Rent the outcome of the powers of Nature embodied in the soil,—they not only would have been consistent and logical in giving Capital the primacy in their system instead of Rent, but would have escaped this special illusion of the tendency of Profits to an equality as well. But having already got their feet in the bog through their abstract doctrines, they sank still further, and were the more confirmed in their illusions, when in the time of Mill they looked around them and saw that nearly all capitals

engaged in industry, were engaged in such break-neck competition with each other, that their profits were not only being reduced to an equality in the struggle, but were being quickly reduced to a minimum as well. But while Mill was persuading himself that the tendency to equality was the normal tendency of profits, and,—believing as he did that it was an eternal law of Political Economy,—was becoming nervously apprehensive lest the tendency of profits to a minimum also, was likely to be realized, events themselves were on the point of giving the lie to all his fears, predictions, and principles. For when capitalists found that the profits of different industries in the same line of work, depending as they must do on unequal powers in the instruments of production employed, were really unequal on every pound of capital invested, it was not long before a few of the larger firms in each industry took to *combining* instead of competing, and by the immense saving in costs which production on a large scale made possible, began gradually to drive their weaker rivals from the field. In the very year of Mill's death, the great American Oil combination had already got itself firmly entrenched,—with results to the rest of the American oil refiners which all the world now sees; and yet in all its operations, the American Oil Trust has infringed none of the original presuppositions of the orthodox school—neither its principle of freedom of contract, which involves in its essence freedom to combine as well as to compete, nor yet its principle of *laissez-faire*. But so great, indeed, has been the inequality of profits which has resulted, that the most serious problem of the present time is, how these portentous inequalities resulting from the freedom of contract and *laissez-faire* are to be controlled. And when we remember that these profits are in the hands of men,—and not of dead machines, or of an abstraction like mankind in general;—and further that these men intend to aggrandise themselves and to promote their own interests by means of them (for that is part of the game of wealth which all who go into business are playing), and far

from manuring the general world with them, outside the range of their private charities, will grip them all the more tenaciously to themselves, while leaving the public only the scraps and entrails, as the lions do the jackals;—what then are we to say to a Political Economy which lets loose on the world for its consolation, the doctrine that if you leave things alone and give them a little time to readjust themselves, all these gigantic profits will, through the entrance into the arena of new competitors, tend to equality again?

Again, if we turn to Wages, we shall find a number of considerations which have illegitimately held the orthodox economists fast to their doctrine that they too, like Profits and Interest, tend naturally (except for special reasons and under special circumstances) to equality. But on examination it will be seen that Wages are the subjects of an enforced and artificial equality, and if left to themselves would like all else in this world which is the subject of differentiation and evolution, steadily tend to inequality. To begin with, we find the orthodox economists attaching an absurdly exaggerated importance to Ricardo's 'iron law of wages' as it is called, whereby through the combined operation of competition and the pressure of increasing population, wages are believed to be steadily pressed downwards by natural economic laws to a bare subsistence level, and so far to an equality. But now that Trades-Unionism has replaced this unlimited competition by combinations over a large portion of the industrial field, and Malthus' law of Population has turned out to be a superficial ingenious Nature myth in which half of the ultimate factors are left out of consideration, this particular conclusion of Ricardo's has lost its logical basis and justification; and accordingly we may dismiss his doctrine without further discussion, and indeed without apology, inasmuch as the actual tendency of wages since his time has belied his doctrine. As for the other considerations which have misled the orthodox economists into the belief that Wages in the large tend to

equality, they may be mainly reduced to the effects of the incidence of extraneous Power or pressure in one or other of its forms, and not to any law proper to the science of Political Economy as such. In the ages of Slavery, this pressure, whereby the remuneration of the slaves was reduced to an absolute equality, took the form of force open and undisguised; in ages of Serfdom, the power was somewhat modified and softened by Custom which had the force of law; in the Guild-system of the Middle Ages, the power concealed itself in legal enactments, as in a velvet glove; but in all these stages alike, the equality of wages was an enforced equality. In Modern Industry, Wages whether tending to equality or to inequality, have done so mainly as following on the lines of custom and tradition, slowly modified in their course by evolution, and not by any merely economic law; for example, in most countries, power, and its handmaid custom, still decree that the wages of men and women shall be unequal for equal output in the same class of work; while the scale of real wages in country districts is everywhere somewhat lower than for an equal grade of work in the towns. Between different countries, again, the wage-levels rise in a series of terraces of inequality, even when the products of their respective labour in the same lines of work compete on even terms in the world markets;—the standard rate in each instance following the lines of custom, tradition, and evolution, but not of economic law. Wages on the Continent, for example, are on a lower general level throughout than in England, and in England than in America; while in the East they are much lower than in Europe and the West. And if we take a particular country, say England, and ask why wages in the same lines of work,—as of engineering, cotton-spinning, weaving, bricklaying, carpentry, printing, etc.,—are the same for each of the individual workers in a particular line, we shall find that it is due not to any strictly economic law or tendency as such, but either to policy, strategy, and expediency, or to the pressure of extraneous power. The

equality of wages to which all the different workmen in the same trade are squeezed and pressed, whatever be their relative efficiency, is a matter of expediency on the part both of the masters and the men, but operating for different reasons. The masters favour it, because by fixing the wage-rate of all the workers at the level of the poorest of them, they are enabled to get an unpaid-for advantage out of the superior industry and efficiency of the remainder; the workmen favour it, in order to prevent that jealousy between them which, if the wages of each were separately graded according to his ability, would oppose a serious obstacle to their combination, and so would make the Trades-Unionism on which alone they can rely for the improvement of their condition, more difficult of realization. And lastly, when all else has been allowed for, the mere fact that the instruments of production are entirely in the hands of the masters, and that the workmen are reduced, in consequence, to the attitude of suppliants who must get work for themselves on any terms or starve, is enough of itself, in the absence of Trades-Unionism, to coerce the labourers to an equality of impotence through the unrestricted competition for work on the one hand, and the pressure of power on the other. It is this divorcing of the workmen from the instruments of production by which alone they can live, that makes combination so easy and informal among the masters, but so difficult on the part of the men, and which in every pitched battle must give the victory to the masters. There must always be an inequality of bargaining power between masters and men in every contract, until that day shall arrive when the sacrifices of each master in a strike or lock-out will affect his present comfort and future destiny as seriously, in its way, as it does that of each of his workmen. For in all combinations of men whatever, and for whatever purpose, there is always generated a surplus of effective power over and above the sum-total of that of each individual when functioning as a separate unit. And as it is a universal law of Civilization that only

suppliants, like rival lovers for the same hand, compete with each other, while those who have the power will always combine to keep it, the result is that the workmen stripped of their instruments of production by the capitalists, have no resource but, like disarmed soldiers, to sue for the favours of their masters and to compete against each other for them: and so, like all helpless passive things, must when shaken down as in a sieve, tend to a common dead level of equality; while the masters can take for themselves a greater share of the produce than would naturally fall to them (except in the case of the inventors) from the operation of mere economic laws alone. And as corroboration of this, we see that in all ages, kings and despots who have won for themselves supreme power, whether by the sword, or by usurpation, or as a free gift of their followers, have always taken the largest share of the industrial wealth for themselves; have given their supporters, courtiers, or accomplices, the next largest; and have thrown only the leavings to the great masses of the population, to be struggled for by pure competition among themselves. The great land-owners of the past in all countries competed only in War and Politics, but in Industry they left the competition for their favours to their tradesmen, dependents, and menials. In Modern Capitalist Industry beginning with Adam Smith, it is the capitalists whose power makes of them a loose informal combination, while the individual workmen have to compete for their favours, and so their remuneration, or wages, for services rendered tend to equality. More recently, the workmen have, with the greatest difficulty, managed to combine on their own account; and the masters, no longer able to squeeze them as before to make good their trade losses, have been obliged to enter into cut-throat competition with each other to secure the custom of the Public, with the usual consequence that they in turn were having their profits reduced to a minimum, if not to an equality. It was this stage in the evolution of Industry that Mill and the economists who

succeeded him saw going on before their eyes, and from which they deduced the doctrines of their text-books,—doctrines which, believing this stage to be the final and permanent one, they proceeded to elevate into what they imagined were the eternal laws of Political Economy. But just when they had got their science perfected, as they thought, the great capitalists and captains of Industry kicked their feet through it by uniting themselves into those giant Trusts which have crushed out all their smaller competitors; with the result that the Public which had formerly squeezed the capitalists of their profits by making them compete like rival gladiators in the old Roman arena, for its favour, now found itself, in turn, to its surprise, between the upper millstone of the Trusts and the lower one of the consolidated phalanx of Trades-Unionism;—and there it is likely to remain so long as the present industrial régime lasts.

And yet, although all economic things in the present stage of industrial development tend to inequality in so far as the action of the purely *economic* influences that play through them are concerned, it is necessary to observe in order to give our subject more completeness, that there is always in Political Economy as in all other departments of Civilization, some part of the field which has been subjected to the levelling influence of equality; and further, that wherever and whenever this has occurred, it has always, as in general Civilization (as I attempted to demonstrate in the first volume of this series 'Civilization and Progress') been a condition essential to the freer and fuller play of greater inequalities than before in other parts of the field. If we take, for example, the domain of Politics, we shall find that it was only after private revenge was put down among the masses of the dependent population by the baronial courts, whereby the unregulated inequalities of the lowest stratum of society were levelled and equalized, that the barons themselves had a free hand in their own feuds in their struggle for inequality; and further that it was only

when these feuds in turn were put down by the kings' courts, that the kings had a free arena in which to establish inequalities of rank and power among themselves. And we have reason to believe that it will only be when 'balances of power' among the nations shall compel the creation of international tribunals for the settlement of national differences, that the inequalities both of kings and peoples will at last be reduced to equality. It is the same with private Morality. It was only after the Ten Commandments had been thoroughly ground into men, thereby putting the morality of the masses on a general level of equality, that free scope was given to the upper ranks of society to establish their own special criteria of moral judgment unchecked; and we had, in consequence, special codes and courts of 'honour' (by no means synonymous with morality) with their appeals to the duel and other punctilious observances, the breach of which entailed social ostracism, and which were believed to be necessary to estimate and judge their inequalities. And here again it may be remarked, that it will only be when publicity and the light of 'public opinion' shall penetrate everywhere and make secretly recognised immoralities impossible, that the real inner inequalities of individual character and morality will shine forth and make themselves fully felt in the world; in the same way as the real inequalities in the intellects and capacities of men will only become graded in a scale of relative values, when the purely factitious elements of wealth and position which are now mixed up and confounded with them, shall have been reduced, by a better organization and distribution of that wealth, more nearly to a practical equality. And it is the same with Political Economy. For although in the present stage of industrial development, Rent, Profits, and Wages naturally tend, as we have seen, to inequality, still there is always a tendency, increasingly visible everywhere, for the remuneration of the lowest grades of service to become generalized, and to range itself along the line of equality. But in connection with this tendency to economic equality two

points are to be observed;—first, that it is due to civilizing and humanitarian agencies, and not to strictly economic ones; and secondly, that it has the effect, as we should anticipate, of giving freer scope to the higher grades of industrial functions to blossom into still more striking inequalities. Already there is a tendency for the most ineffectual workers of the lowest class to have given to them as their *right* a 'bare subsistence' wage, which in its way may be said to be the lowest and crudest form of equality; and now the cry is going up for a 'living wage' for all workers whatever above this 'bare subsistence' grade, and is already within measurable distance of realization; while *pari passu* with it, Trades Unionism is everywhere gradually raising by its own efforts, as well as by political pressure, the level of equality in all the skilled trades. And the consequence is, as we should expect, that Capitalism having now got a comparatively firm and level highway, and not a mere quagmire, beneath its feet, is everywhere running rampant with inequality;—as indeed is exemplified economically in the industrial undertakings which are now being combined and consolidated into mammoth Trusts, as well as in the huge inequalities of private fortunes on the higher levels of income. And here again we may say that it will only be when these inequalities in turn are coerced by national or international pressure (whether taking the form of legislation which shall lop off 'unearned increments' of every kind, or of a new industrial organization which will have the same effect), that in the grading of men, inequalities in the manner in which they *employ* their wealth, or in the culture, taste, and refinement exhibited in its mode of expenditure, will make themselves the primary considerations in the world's esteem; and that not only modest incomes with 'plain living and high thinking,' but honest poverty itself, will cease to be shunned and concealed as if it were a leprosy or crime. But in the meantime we may venture to predict, that the play of these leviathan inequalities of fortune which have only recently begun, will before their

noontide and consummation, breed a class of men whose moral standards and ideals will if unchecked sink the race as low as ever did the imperial throne of the Cæsars—with its Neros, Caligulas, and Caracallas,—all ranks alike of the Roman people. And this it will do through the low ideals of the great masses of men, whose poverty breeds the base admirations which colossal wealth and ostentation draw out, as the sun does the miasms of the marsh; fascinating their secret idolatries, and hypnotizing them as the eyes of malignant serpents do birds, and so reproducing their base ideals faster than either preaching or prophesying, religion or the hope of heaven, can outroot them. Even now the streets of the world are lined with crowds who drink in every movement of these overblown financial potentates, as if they were emperors or kings. But to return.

We have seen, then, that in the present stage of the evolution of Industry, the distribution of Rents, Profits, and Wages, would all alike tend, if left to themselves, to inequality; even the simplest bargain between individuals never being quite on level terms, but depending always on the relative strength of the desires with which the one party to a transaction wishes to part with an article or piece of property, and the other wishes to acquire it. So that although in the Pure Science of Political Economy there is, as we have seen, only one law of distribution, namely that all the factors alike, whether Rent, Profits, Interest, or Wages, tend to rise and fall together according to the speed of the revolutions of the wheel; in the Applied Science with which we are dealing,—and which has to function in a world of separate nationalities with their respective political constitutions, policies, legislative enactments, etc.,—the distribution of wealth depends for its variations from the normal, entirely on the incidence of Power in the widest sense of that term: whether it be the power of the sword, of legislation, of custom, of the pressure of public opinion, or of those purely economic advantages of time, place, situation, and position which are not transferable, and cannot be annulled.

This is the real world in which the wheel of wealth revolves and functions, and by which all its natural revolutions are accelerated or impeded at each and every point; and it is in this world that our doctrine holds true, that the distribution of all economic things tends to inequality,—and not, as the orthodox economists hold (except in the case of Rent), to equality. And the conclusion of it all for economic reformers and statesmen is, that as the distribution of wealth is a composite of two factors;—namely of Power on the one hand, which, as being always centred in the hands of human beings, tends ever to the conservation, aggrandizement, and augmentation of itself, and so to make cumulatively for inequality; and of the pure abstract laws of the wheel on the other, which if not interfered with by the intrusion of Power from without or from within, would tend everywhere to make the economic prosperity or adversity of all the classes engaged rise or fall together;—it follows, that to handle any tangled economic situation with a view to the general welfare, we must keep our eye fixed on where the incidence of Power falls, rather than on the pure laws of the wheel itself. For it is the intrusions of Power that are usually the cause of any obstructions that may arise in its running; and just as in the complications of home life, cynical observers have suggested that it is always advisable to '*cherchez-la-femme*,' so in all economic situations of difficulty, it is always necessary to ask, where is the man, or class of men, or institution, or law, or policy, or what not, which has succeeded in entrenching itself so firmly in its position that if left unmolested it will continue to dominate the situation indefinitely, and so keep up the economic grievances which it is the interest of the public to remove;—and there to direct its batteries. In other words, it is to Politics and Legislation that we must look primarily for the remedying of economic grievances, and not to '*laissez-faire*' and the abstract laws of the wheel itself when running *in vacuo* as it were, and cut off from its roots in the real world.

And now we have come to the end of our survey of the orthodox Political Economy from Adam Smith to John Stuart Mill. At one point or another of our discussion we have managed, I think, to introduce practically all of the main doctrines of the orthodox system which are included in this stage of its development, and have endeavoured to give to each as much space and consideration as its importance would seem to demand. In the immediately succeeding chapters, I propose to concentrate attention on those modifications of the doctrine of the orthodox school of Ricardo and Mill which have been made by the later writers who have carried on its traditions to the present time, as well as on the doctrines of those outside economic thinkers who while still clinging to many of the doctrines of the orthodox school, have made the most effective breaches in its walls at one and another point, and so have prepared the way for the new Copernican system which, borrowing an analogy from Astronomy, I am here making a first rough attempt to erect on the ruins of the old Ptolemaic one.

CHAPTER III.

THE ACADEMICAL ECONOMISTS — JEVONS, BOHM-BAWERK, MARSHALL — ON VALUE.

IN continuing our examination of the evolution of Political Economy from Mill to the present day, the task before us will, after our foregoing discussions, be a comparatively simple one. With Mill, Political Economy became at once orthodox and academic; and the impress then given it, so far as its organic skeleton and the concatenation of its leading principles are concerned, has remained to the present day. Practically, therefore, most of the criticisms we have applied to the developed Economy of Mill, will apply equally well to all his orthodox successors, and need no longer detain us. But the object of this volume would be but imperfectly attained if the matter were left here. It is incumbent on me to show as well that, as I said in my opening chapter, Political Economy is no exception to the doctrine that if once any department of human activity is cut from its roots in History and Civilization, for the purpose of making an academic specialism of it, the further its evolution and development have proceeded from its original basis and its delimited stock of first principles, the more unreal and fantastic do its specialized doctrines become, until they end too frequently in sand-heaps of pedantry and absurdity. Scientific laws are

replaced by detailed inventories of short-sighted methods and processes, constructive combinations by ultra-microscopic analyses, until all focus and perspective is lost; and of this tendency, the evolution of academic Political Economy since Mill, affords one of the most striking exemplifications. But as my space is restricted, and there are limits to the reader's endurance of prolonged discussions on human pedantry, I propose to plunge at once *in medias res* by concentrating attention on a few of the leading representatives of the different schools—Jevons, Marshall, Böhm-Bawerk, Walker. Clark, and others,—and on the three problems which have most exercised the minds of the orthodox economists since Mill, namely the problems of Value, of Interest. and of Distribution; leaving what I have to say of the 'outside economists'—the men like Ruskin, Marx, Henry George, Gunton, Hobson, and others—to a later chapter.

But if my criticisms of this rather intricate set of problems are to have coherence and continuity, it is necessary that I should prepare the reader beforehand, by a tabulation of the errors of method which he may expect to find in the speculations of these later economists; and as these errors all hang together in a chain, each following on what went before, it will be better to exhibit them in their connection, before starting on the main business of this chapter.

In the first place, then, like the earlier economists, they have missed the part played by Consumption as an integral factor in their Science, and as a consequence have missed the fact that the mechanism with which they are dealing is a double-sided revolving and self-regulating wheel of Production *and* Consumption, as the mechanism of the eye is a self-regulating globe of sight. In missing the wheel, they have missed its central axle,—which, as we shall see, plays so important a part in the problem of Value and of Interest,—and therefore the focussing point from which all its movements can be surveyed in a single view. In missing this central

point of survey on the axle, again, and the men of the central exchanges who sit on it,—the dealers of the Money, the Corn, the Metal, and other Exchanges, who are in touch with every side and aspect of the wheel—they have missed the fact that these men really control the amount of supply of any commodity that shall be forthcoming to keep pace with the demand—the amount of new land taken into cultivation, or of old land allowed to fall out of it, of new mills to be erected, or of old ones to be closed, etc.,—and so are the initiators of economic phenomena, and not merely the passive registrars of them, and help to regulate and steady the pace of the wheel, while themselves guided by that pace. And the consequence, again, of these academic economists not seeing things all round from this commanding point of view in the centre, and in the open sunlight, as it were, is, that they have had no other alternative but to conduct their investigations of the laws of the wheel from a distracted multiplicity of independent transactions on one or other side of it, where only half the significance of each is visible; and in consequence have missed the element of economic *Power* which results from concealed but virtual monopolies, and which, as we shall see, is to be found gathered up and concentrated in bulk, only in the hands of the men on the axle—the power of landlord over tenant, of capitalist over workman, of the money-lender over the money-borrower,—all of which, like loaded dice, give their possessors an advantage in every, the smallest, individual transaction or bargain. For although negotiated under the form of 'freedom of contract,' these bargains involve, as we have seen, the freedom to combine as well as to compete; the competition being only a half-way-house, as it were,—as the industrial world has lately given proof,—on the road to combination. And having missed this intrusion of economic Power, under the illusion that all contracts are free, and that competition reigns everywhere, they have missed the fact that all economic forces alike tend

not to Equality, but, as we saw in the last chapter, to Inequality.

Now the above errors of method, and neglects, are the common heritage of the Orthodox Political Economy both before and since the time of Mill; but in the discussion on Value, Interest, and the Distribution of Wealth, with which the academic Economists since Mill have been mainly concerned, and to which I am now to invite the reader's consideration, there are three special illusions into which they have fallen, and which it is necessary we should keep in mind. These all spring from their inability to focus their subject-matter properly, owing to their not seeing that they were dealing with a revolving wheel which has a central axle, and, in consequence, to their having lost their way in groping about among their own subtleties. These three illusions are:—

1. That they have ground down what are essentially matters of relative *quantity* and *velocity*, into individual *psychological* estimates of satisfaction or aversion; and so have been unable to construct anything with them; just as would happen if one were to grind down bricks into brickdust, and then attempt to build with the dust; and so have confused Psychology and Biology with Political Economy.
2. In not seeing that the wheel of wealth is *double-sided*, each side keeping pace with the other, they have not been able to connect the phenomena turning up on one side of the wheel with the correlated phenomena on the other; and as no product can be said to be properly on the wheel at all (and so belong to the Science of Political Economy) unless it is being *continually* produced, sold, and reproduced, the consequence is that not only are they unable to separate what strictly belongs to their problem from what does not, but they are only able to give one-

sided (and therefore practically false) solutions to all the problems discussed. This is especially seen in their discussions of Value and Interest.

3. But more important still, in not seeing that the wheel is a continuously revolving one, they have fallen into the error (everywhere seen in their treatment of the Distribution of Wealth) of supposing that the complexities of their Science, whose subject-matter is entirely *dynamic*, can be approached by first separating out the dynamical elements and throwing them away, and then concentrating on the relations of the statical, in the belief that the dynamical complications can be unravelled and woven into the statical, later on; and so have missed the true method of approach, which is to begin with the dynamical relations, and then to add the statical, which, as being merely hindrances or obstructions to the free running of the wheel, do not affect the Science in its essentially dynamical character,—whether they come from outside the wheel altogether as in Politics, or are concealed in its interstices, as in the purely economic exploitations of one industrial class by another. This latter method, as the reader will remember, is the one which I have been obliged to pursue, as seen in my treatment of the Pure and the Applied Science of the Wheel at the beginning of this volume.

Of the affectation of mathematical diagrams and curves, again, in the statical presentation of the academical Economists, I shall have something to say later on.

Let us begin, then, with Jevons, the most important, perhaps, of all the orthodox economists since Mill, in so far at least as his influence on the still later schools of the academic Political Economy is concerned,—especially his influence on the

English School, as represented by Marshall; on the Austrian, by Böhm-Bawerk; and, in a roundabout way, on the American, by Clark and others.

And first, as to his solution of the problem of Value, and the modifications he has introduced into the doctrines of Mill and Ricardo. They, it will be remembered, made the value of an article depend on the labour and capital spent in producing it, any variation from the normal markêt-price being referable to the temporary fluctuations of supply and demand. Jevons proposed to upset this, and to make Value depend on the mental or bodily *satisfaction* which people got out of things—their 'utility,' as he called it—and although he admitted that the cost of producing them had *something* to do with their value, it was neither a definite nor an essential element in it. It might be a 'determining circumstance,' he allowed, but not a 'cause.' And the reasons he gave for this were:—first, that the different kinds of labour were essentially *variable*, and therefore not reducible to any common denomination for purposes of comparison;—for how, he asks, could you ever possibly determine *à priori* the relative productive powers of a navvy, a carpenter, an iron-puddler, a schoolmaster, or a barrister? Or, again, what, he asks, have the values of old coins, old china, antiques, pictures by old masters, etc., to do with the cost of their production,—in any proper sense of the term cost? But should you suggest that Value, economically speaking, applies only to things that can be produced and reproduced,—as corn, cotton, iron, etc.,—he counters you by pointing to the fact that their values are always fluctuating, and therefore cannot have depended on their cost, which at any rate must have been a *definite* amount. And although he afterwards admits that Labour, if never the cause of Value, is in a large proportion of cases the 'determining circumstance,' still when he has to make up his mind which he is going to stick to—Labour, or Utility—after making his *amende* by recognizing a certain element of truth in Mill and Ricardo, he

plumps solidly for his own dogma of 'final utility' as the one on which he is going to hang his subsequent deductions, and throws overboard the labour-cost—like an advocate who, beginning by admitting that there is something plausible in his opponent's arguments, allows them to grow dimmer and dimmer as he proceeds, until they fade out of sight altogether; —and so relegates Labour to the scurvy position of a 'determining circumstance' and not to the dignity of a true 'cause'! Now the worst feature of irresolute Thinkers like Jevons, who have not natural penetration enough to gravitate to the central reality, is that, like a man with a candle groping about among the miscellaneous contents of a cellar, they shift their arguments and observations to adapt them to the particular side of the object against which they happen to collide; and, not seeing the other side, either only feebly believe that it has another side, or are unable to bring the two into relation with each other. For what, after all, is the distinction which Jevons wishes us to draw between a 'cause' and a 'determining circumstance'? If he means that a 'cause' must be an ultimate mental thing, like desire or satisfaction, while a 'determining circumstance' is only a physical thing, like Labour; and if, as he admits, Labour in a large proportion of cases is the 'determining circumstance' of Value; then he ought frankly to have admitted that Value, or market price, was the result of the co-operation of two factors equally necessary, namely Labour and Utility, and not of Utility alone; whereas he has afterwards made his new system of Political Economy turn on the single factor of Utility; like a man who because when asked why he gave £100 for a piece of old china or an old master, he could justly reply because of the personal satisfaction, or 'utility,' he got out of it, should when asked why it was fourpence, and not a shilling, that he gave for a loaf of bread, deem it also a sufficient explanation to say, because of the amount of personal satisfaction which, being hungry, he got out of it. And yet it is Jevons' own answer; for after

much to-and-fro discussion, his conclusion is that Value depends solely on 'final utility.' Now the truth is, Jevons confounds the cause of Value in *general*, which of course is solely utility, or in general terms personal desire and satisfaction, and that alone, (otherwise no one would buy anything), with the cause of value in *particular* cases, or market price—quite a different matter. And this although it is precisely the problem of the cause or causes of particular-values, which Political Economy has asked him to solve—not of the cause of Value in general.

The fact is, he did not see that no *definite* thing in this world, whether it be a market price or anything else, is ever the result of a *single* cause, but must always require at least two factors—a general and a limiting one,—and that it is only when the two are brought together that a definite *something* can arise; in the same way as it is only when a positive charge of electricity is brought into relation with a negative one, that a definite spark passes between them. And if this be so, it is evident that a definite market-price cannot be the result of any one thing, or *degree* of one thing,—whether it be the 'final' or any other degree of 'utility' or satisfaction,—but must be the result of a relation between that and some other thing. And the question now becomes why did Jevons stick so doggedly to his single cause—Utility? For if we can find an answer to this, it will give us an insight into the fallacy involved in his whole scientific procedure. He has himself given us the hint as to where to look for it, when he asks;—how can you ever compare the productive powers of a navvy, a carpenter, a schoolmaster, or a barrister, so as to reduce them to a common denomination of labour? And if you cannot, then the different values of things must, according to him, come out of the utility or satisfaction they yield,—only in different *degrees*. But as the value of a thing is always the *same* at any given time in the same market, whereas the satisfaction which people get out of it at any particular time varies with every circum-

stance of their lives,—whether they are hungry or not hungry, whether they have just eaten their loaf or not yet eaten it, the amount of the commodity they have on hand or can look forward to having, the price they have to pay for it, the extent of their means, etc.,—it follows that to get a common denominator in degrees of utility or satisfaction, as the basis of a definite market price, is even more hopeless than to get it out of the different *kinds* of labour. It is evident, then, that the different degrees of utility do not give us the second term of the relation of which we are in search. Now, if Jevons had said that the market price of an article was the relation between the mental or bodily *disagreeableness* to which one set of persons were put in producing the article, and the mental or bodily *satisfaction* which another set were to get out of it, not only would he have got the second term of the relation necessary, but both terms would have been of the same denomination; and his solution of the problem of value, accordingly, would have been in essence substantially true. Or if he had made the price depend on the relation between the amount of *labour* that had to be put into an article, and the amount of *labour* to be got out of it—as out of a loaf of bread or ton of coals,—again he would have had two terms of the same denomination, and again would have been substantially right in his solution. In each case he would have got the two co-equal and co-essential causes, of the same denomination, which are necessary to produce a definite market-price. But by settling himself on one arm of the relation only, and excluding the other altogether as a 'cause,' not only did he set back the development of his science instead of advancing it, but he rendered all the deductions which he was about to draw from his solution futile. That he did intend to deduce other conclusions pertaining to the Science from it, is manifest; for at the outset of his work, he announces that his theory of Value 'is the keystone of the whole theory of Exchange, and of the principal problems of Political Economy.' But the deductions which he

did not live long enough himself to draw, were drawn for him wholesale, as we shall see, by his pupil Böhm-Bawerk, as well as in limited directions by certain Economists of the English and American Schools—of which, more anon.

But in the meantime his announcement gives us a hint of the second reason why he should have persisted in so strange and patent a fallacy as that Value depends *solely* on 'final' or 'marginal' utility. It lies in his confounding a theory of *the exchange of different* things, with a theory of *the value of particular things*. "Articles," he says with real truth, "will exchange in quantities inversely as the cost of production of the most costly portion, *i.e.*, the last portion added;" or, in other words, they will exchange, not according to the rich capabilities of the best lands, or the productivity of the best machines, etc., but according to the difficulties of the *worst* that are in use in supplying the market; the most fertile lands, the richest and most easily worked mines, the most productive machines, etc., getting as a *free gift* the excess of their product over that of the poorest and worst in competition with them; just in the same way as if a man happened to own a field where gold or diamonds lay strewn on the surface, he might sit still and grow rich on the 'unearned increment' which would flow in to him from the high price he would get for them, and which would be fixed by the labour of those who had to get them at great cost, and by expensive machinery, from the bowels of the earth. But although articles of different kinds—as wheat and coal—will exchange with each other in the inverse ratio of the cost of bringing to market the most expensive portions of the supply of each, and not of the cost of the least expensive portions,—or, in other words, will exchange in quantities inversely as the respective *values* of each,—still this does not bring us any nearer to our problem, which is;—what determines the value of each article separately? It is easy to know how the things will exchange, when once you know their respective values: but the problem is, what is the cause of the particular

value of each? Jevons, at any rate, cannot affirm that it lies in the Labour-cost of the most expensive portion; for his whole theory is, that Value does not depend on labour-cost at all, as its 'cause,' but solely, as he says, on Utility. Leaving him, then, in the muddle of his own creating, whereby he makes the Exchange-value of two *different* things depend on their relative Labour-costs, but the value of each to depend, not on Labour-cost at all, but only on Utility; we may now turn to the other academical Economists, and see how they propose to solve this problem of Value, and of Market-price.

And first let us consider Böhm-Bawerk's solution. Now of him it may be said, that instead of extricating his master, Jevons, from his confusion and one-sidedness, he has only succeeded, by the uncompromising definiteness and dogmatism with which he defends him, in making them more conspicuous. Jevons himself evidently had qualms in ruling out cost of production as a 'cause' of price, for, as we have seen, he hesitatingly tried to bring it back as a 'determining circumstance.' But Böhm-Bawerk ruled out this concession as a mere weakness, and boldly declared that "the measure in which a want is satisfied, is actually and everywhere the measure of value of the commodity that satisfies it, and not the difficulty or cost of making the article; the costs of the different factors in the production of a commodity, being represented by the satisfaction given by the finished product, and not the value of the product by the costs incurred at the different stages of its manufacture." Here you have the Utility theory of Value in its full flowering;—and it is only another instance of the tendency of all specialisms in their decadence to lose all sense of measure, proportion, and qualification, until they end in downright absurdity. For here, like Jevons, it is evident that Böhm-Bawerk confounds Value in the abstract, with a particular market price; and because the sole cause of Value in general is Utility, thinks that the particular value of a particular thing, or its market price, is

that people in general desire it, or get satisfaction out of it. Like Jevons, too, with his old coins and old china, Böhm-Bawerk draws his proofs from the fancy prices that are paid for articles like rare vintages of wine, which are desired chiefly for purposes of ostentation by those to whom price is a matter of indifference, instead of from commodities which are more or less freely producible on demand, and which minister to normal economic wants. And it is the same with commodities necessary for Production, as for articles of Consumption; for he contends that the market price of every stage of a product from the time the raw material is taken from the field or the mine, until the finished article finds its way into the retailer's shop, is regulated by the *degree of enjoyment* got out of the finished product; but how the prices at each stage are to be apportioned, unless the costs of each are estimated, is a mystery which no man can solve. Indeed, this introduction of matters of individual psychology, personal caprice, etc., into market price,—which is, after all, only a matter of the movements of economic *quantities*, and the obstructions they encounter in their progress round the wheel,—is as much an affectation and excess of analytic subtlety, as it would be to reduce the issue of a prize-fight to an elaborate analysis and calculation of the particular muscles and nerves involved in the respective combatants, instead of into their relative strength and skill as men merely, by whatever elaborate internal mechanism these are brought about,—like that economist, whom Marshall mentions, who proposed to construct a system of Political Economy on the relations between the nerves of sensation and the nerves of motion;—and is to be wise above what is written. In spite of its array of mathematical formulæ, curves, and diagrams,—like the apothecary's shop in 'Romeo and Juliet' with its old dried fish-skins, empty boxes, bladders, and stuffed alligators, 'thinly scattered to make up a show,'—and the consequent appearance it has of deep and recondite scientific analysis, it exhibits a want of penetration and insight

as to how to focus the subject-matter of the Science in the way best calculated to bring out its essential relations and harmonies; and is a disease and retrogression, rather than an advance. For in this problem of market-price, it is necessary to keep our sight 'dilated,' as Bacon would say, rather than contracted to a pin point, if we are to bring the subject into just relation and perspective with the other aspects of the Science, as parts of a harmonious whole.

Leaving Jevons and Böhm-Bawerk, then, with their reduction of the problem of Value to its one-sided function of being a mere register of degrees of mental or bodily satisfaction, or Utility, let us now see what is the attitude of the English School of Economists to this doctrine.

In his discussion of the problem of Value, Professor Marshall, while leaning on the whole to the Labour-cost side of Mill and Ricardo, ends by making a compromise; but this he gets rather by 'splitting the difference' between them and Jevons, than by any such firm handling of the problem as would necessitate a reconstruction of the other fundamental propositions of the school of Mill, to which, indeed, in a hesitating way, he still in the main adheres. He declares, quite justly, in opposition to Jevons, that value depends as much on 'final' labour-cost as on 'final utility,' and strikes down on the truth very happily when he says that the cost and the satisfaction mutually determine each other, like a number of balls in a bowl, or like the separate blades of a pair of scissors, both of which are needed for cutting. That this was a lucky hit on the part of Professor Marshall, rather than a real illumination, is rendered probable by the fact that, if followed up, it would have revolutionized his whole Political Economy; for it would have led him to the introduction of the factor of Consumption as a definite, and not merely an indeterminate, element in the science. For if the upper blade of his pair of scissors stands for Production, or Labour-cost, his lower blade must stand for Consumption, or Utility; and the two together would—had he

seen that the problem was a dynamical one—have led him to the wheel (or some other dynamical construction) as the true symbol and central principle from which all the doctrines of Political Economy are to be deduced. But he did not see that any double-sided phenomenon, economic or other, in which the two sides or aspects are so connected as to mutually determine each other, must be a dynamical one, and follow dynamical laws; and so his system, as a whole, is as statical in its nature and methods as that of either Mill or Ricardo. Instead, therefore, of revolutionizing all his doctrines, this chance *aperçu* remained with him barren and alone, and bore no further fruit; it was a gleam of true perception in the midst of the general sand-desert of refinements and distinctions of the academic Political Economy.

The only English Economist who has arrived at a true theory of the nature of Value by an exhaustive analysis of all its sides, and one which is in harmony with all his other views, —and not, as with Marshall, in contradiction to most of them,— is Mr. Hobson, whose work the academic Economists have so long affected to ignore. In his 'Economics of Distribution,' he has shown that Value is always a *relation*, whether you regard it from the Labour-cost side of Mill and Ricardo, or from the Utility side of Jevons and Böhm-Bawerk. If you take it from the Labour side, the value of anything is, he contends, a relation between the Labour-cost (acting on natural resources) which constitutes the limits of 'supply'; and the work you are to get out of it, when backed by your power to purchase it,—as, for example, the work of a ton of coals, or the vital energy from a loaf of bread,—which constitutes the 'effective demand.' Or, if you take it from the mental, or Utility, side, it is a relation between the strain on brain or nerves, involved in the disagreeableness of getting a thing, which constitutes the supply, and the satisfaction which it will bring you, when acquired, which determines and regulates the demand. And with this analysis I quite agree.

Now, it will be observed that the above solutions of the problem of Value which have followed one another in line from the time of Ricardo and Mill to the present day, have all been arrived at by the same general process or method of approach, —by the point to point inspection, namely, of the different aspects of the mechanism of exchange, and of the relation of its various parts with each other. But as this mechanism in its actual running is very complicated, so that the whole has to be arrested, as it were, before each point can be inspected, and started going again; and as without some general idea of what it all means beforehand, it is difficult to combine these separate observations into a harmonious conception of the whole,—much in the same way as it would be difficult to understand from the inside of a watch what its intricate mechanism meant, unless one came to it with some understanding of the meaning of the hands on its face; or of a printing machine, without a prior knowledge of the general fact that the paper that went in blank at one end, was to come out in printed columns and pages at the other;—reflecting on this, and on how easy it is to go astray when one goes searching about among a miscellany of hitherto unconnected objects or operations as with a candle in the dark, and on how, if a single essential item is overlooked, or not seen on all its sides in its true relation with all the rest, the real meaning and interpretation of the whole is obscured and falsified; and remembering besides, that as a result of this method of approach, the problem of Value which we are now considering has taken nearly a hundred years for the true solution, given to it by Mr. Hobson by this method, to appear; reflecting on all this, I say, the question naturally occurs to one, as to whether the problem might not have been solved more simply and broadly in another way, namely by an approach from the *outside* as it were, and in terms more consonant with the ordinary usage of business men, and more suitable for the practical purposes of an applied Science of Political Economy; and as to whether by some

more illuminating method than this of the candle, other factors and powers whose significance has only been dimly or half perceived, may not be brought more fully into the light. For we have not forgotten that our perpetual-motion schemers, in spite of all their searchings and gropings among the wheels of their machines, always missed the all-important element of friction, which the broader illumination afforded by a knowledge of general mechanical principles afterwards brought to light. And as in this volume I have contended that our symbol of the wheel, with its dynamical, not statical, method of approach, affords a parallel illumination for the science of Political Economy, my readers will naturally expect me to show what light, if any, it can throw on this perplexed problem of Value. And accordingly, without further ado, let us venture to put this problem of Value, like the rest, on our wheel; and after setting the wheel agoing, see what kind of solution it will turn out. But first, I must make some addition to the wheel, in order that the smaller complications may find a place for themselves on it, as a fisherman might do to his net when he was more than usually anxious that none of the smaller fishes should escape him. Now the first addition we must make to our wheel—and without which, indeed, no solution of the detailed problems of Political Economy is possible,—is to furnish it not only with an axle like an actual wheel, but with spokes radiating from it on every side to every part of the circumference. On the axle, or central platform, are to sit all those who are engaged in organizing and controlling the mechanism both of the production and the consumption of wealth,—the bankers, the brokers, and the dealers of the central Corn, Metal, and other exchanges; the spokes being the feelers which keep them, as the central intelligence department of the whole, in instant touch with every part both of the Production and of the Consumption sides or aspects of the wheel. And the first advantage we propose to get for the science from this addition is, that it will separate at once all

those economical or industrial transactions which are not strictly *on* the wheel at all—and which cannot therefore be admitted as the basis for arguments properly belonging to the science of Political Economy—for although in the *form* of business bargains, they often really belong to the domain of other sciences, like Psychology—from transactions strictly belonging to the science. For, unless an article, or commodity, or service, has its place both on the Production and Consumption sides of the wheel, and so can come within the purview of the men on the axle, through their feelers at *all* points of the circumference, it cannot be said to be on the wheel at all as part of the legitimate subject-matter of Political Economy. And the first effect of this elaboration of our wheel will be to throw out of consideration as arguments, all analyses which would resolve the broad facts of industry—as, for example, the actual supply and demand of actual commodities, of which the men on the axle can keep track and register—into terms of the mere personal motives, caprices, or satisfactions, of individuals, which have induced them to make, or refrain from making purchases, to enter into industrial speculations or refrain from entering into them, etc.;—and for this reason, that the men on the axle can neither have any cognizance of the infinite variations of these motives, caprices, or satisfactions, or of their number or their strength, inasmuch as they have no record of them, and even if they had, would find them entirely unmanageable, requiring a book-keeping which would fill up the world with its ledgers and derange the human reason! It is as if they should convert a plain fraction, say $\frac{1}{3}$, into its recurring decimal ·3333333, etc., where the procession of figures, like Macbeth's ghosts, might stretch out to the crack of doom before they could come down on the figure on which they were to pause, and of which they were in search. Besides, there can be no advantage in it of any kind, inasmuch as all these miscellaneous motives of every degree of strength, which enter into the 'marginal' supply and demand of the article

in question, would register themselves, after all, in the exact market price represented by the simple fraction $\frac{1}{3}$. On the other hand, should a single element of marginal utility or cost be left out, the result would no longer accurately register the actual value or market price. And therefore, although you can, if you please, speculatively resolve the relation between supply and demand into terms of these 'marginal' motives, costs, or satisfactions, like our recurring decimals; for *practical* purposes, they are as barren as the speculations of the Schoolmen as to the number of angels that could dance on the point of a needle; or as a calculation of the number of movements of a violinist's elbow in playing a concerto. And just as with the infinite forms of the crests and hollows of the waves of the sea, you can trust that they will find their level, on the simple law of gravitation, although you never could prove it by any possible detailed calculation of the ultimate, endless, intricacies of movement involved; so for practical purposes you can trust that the simple supply and demand of commodities or services, as measured in terms of money, is the ultimate scientific determinant of their relative value, into whatever differentiations of difficulty, cost, marginal utility, or personal satisfaction, you choose from psychological curiosity to resolve them. For although money may not be the ideal measure of value, it is the only one at present practical or possible. And as the quantities of the supply of any article will always balance the quantity of its demand when once it is put on the wheel, inasmuch as Production and Consumption must always balance each other by a quickening or slowing of the whole wheel; and further, as the value of any article by itself, or its exchange value in reference to another, will, when it is converted into terms of money, always be determined by some relation between these quantities; it is evident that we need go no deeper than the simple relations of the *quantity* of the demand and supply of anything, whatever its ultimate nature may be, to solve the problem of Value, when once the article

in question is put on the wheel, and the result registered on the axle in terms of money. And so all these dialectics of the academical Economists on the problem of Value, with their ultimate analyses of the respective factors into the brick-dust of degrees of satisfaction, or utility, 'margin of indifference,' 'final productivities,' etc., are so much surplusage, which not only confuse the problem, but add nothing of value to its solution. And, indeed with all their refinements they have not, as we have seen, been able to solve the problem of Value after all; even when we allow them like duellists to select their own weapons. And this, again, is due to the fact—which our wheel would have made clear to them—that they have not seen when a commodity was on or off the wheel, as a possible basis of their arguments, if they were to be strictly scientific in character; as, for example, when Jevons selects old coins, or pictures by old masters, old unsaleable machines, or ships which have had to be 'scrapped' for old iron, etc., or Böhm-Bawerk his old wines, in proof of their theory of Value. For no commodity can be properly or legitimately the subject-matter of the science of Political Economy, which is not *reproducible*, or, in a word, which is not permanently on the market, so that it has a place both on the production and on the consumption side of the wheel, where the supply and demand can be compared. A thing for which there is a demand,—as an old coin, a violin, or picture by a dead master,—but no possibility of further supply, is economically dead; it is a mere curiosity, and the price that is paid for it is a mere psychological whim or caprice, and has nothing to do with the problem of economic value properly so called. In the same way, an article which has been produced with much expenditure of time and labour, but for which there is no demand,—or if there is a demand, it is not a demand for the thing itself, and in its proper function, but for some other thing into which it can be resolved, as when a machine or ship is sold for old iron,—is also not on the wheel, and cannot be

considered in any legitimate discussion of the problem of Value. All these figure only on the Consumption side of the wheel, but not on its Production side, as they are not reproducible; and so are not in touch on their Production side, with the men on the axle, to receive the stamp of market price; and although they are sold, it is true, and so bring *a* price, they cannot be said to have a scientific value, or a legitimate market price. For the essence of a scientific law of Value, like all other scientific laws, is that it enables us to foresee and predict something; but who can predict the price of a picture by Turner or Whistler, or of the original manuscript of a Burns or Tennyson, which may rise to anything to-day, or sink to nothing to-morrow, according to the private fancies or fashion of the hour?

So, too, no article that is subject to either *absolute* Scarcity or *absolute* Monopoly can figure in any scientific solution of the problem of Value. They either appeal to small sections of persons who will pay almost any price, for any and every reason except a business or economic one,—for ostentation, affectation, singularity, or obstinacy; or if they are articles in economic and daily use, their value is regulated by nothing but the power of the monopolists, by limiting their output, to *force* their own prices on the public; the price being modified only by the expediency of not drying up or diverting the demand to other things, by too great an extortion. These goods are technically on the market, and so are on the wheel, and circulate around it; but as the men on the axle can neither foresee the actions of these monopolists, nor control the supply of their goods, they are really not on the wheel as the subject-matter for the determination of scientific Value at all,—any more than the fifty per cent charged by the money-lenders to the necessitous, has anything to do with the scientific law of Interest.

But there is another advantage in our putting the problem of Value on our continuously revolving wheel, with its central

axle, and spokes in touch with every side of its circumference, and in letting it be ground out as a dynamical problem dealing with *quantities* of definite products continually thrown on the wheel and continually taken off again;—and that is, that our wheel will, by its revolutions, bring to light, as we shall presently see, any hidden powers that may enter into market prices other than purely economic ones, by concentrating them in visible, tangible, masses,—powers which would otherwise escape detection when diffused over numberless individual transactions, in the same way as if you put a miscellaneous number of fluid ingredients into a cylindrical vessel, and make them revolve fast enough, they will separate out in layers, and in bulk sufficient to be estimated and scientifically determined; precisely as you can only find out the flaws or oversights in an invention, when the machine is set to work, or of a play, when it is actually set on the stage.

For no numbers of inspections of individual bargains would ever enable the public to know where a 'forced gain' had entered into the market price of the ordinary commodities or services with which Political Economy deals, inasmuch as no *individual* can ever know,—except in the case of notorious monopolies like diamonds, or Standard Oil, etc., where the output is admittedly restricted, or the market known to be manipulated, — whether the sum-total of the supply of a commodity, drawn perhaps from all quarters of the world, is *permanently* able to keep up with the demand, or not. That can only be known, if known at all, by the men of the central exchanges on the axle. But what is more important still, no individual can know from bargains conducted under 'free contract,' whether one division of the industrial community has the 'whip-hand,' and so the power of extortion, over another—except, perhaps, in such palpable instances as the power of capitalists over their workmen, where the power to wait of the one, and the immediate necessity of living of the other, gives the former a 'pull,' a 'forced gain' or power of

extortion exercised by capital purely as such, over wages as such,—or the power of a small body of large landowners, over all other classes of the community, when they happen to have the full control of the market. But the men on the axle, who are in touch at all points with both the Production or 'supply,' and the Consumption or 'demand,' side of the wheel, know quite well; and it is they who, by practically gathering all producers or possessors of a given class of industrial product into a solid combination, and organizing them, keep the profits and interest of capitalists and financiers, as we shall see later on, higher than the normal, by the addition of a distinct percentage of 'forced gain' which could not have been seen if it had been left to the separate individual buyers and sellers to find out. It is they who know when a 'corner' is possible in any commodity, as in cotton, for example, inasmuch as, being in touch with both the extent of its production and its consumption, they are in a position to know the chances or likelihood of supply being short, in a way that would be impossible to any number of unorganized and unconnected individual buyers and sellers.

And this leads us to the last and most important advantage to be got from our wheel with its central axle;—namely the recognition of the fact that the men of the central exchanges are not merely the passive registrars of variations in value, but are *initiators* and partly controllers of them as well. It is they who, through their published market prices, give notice to all the world of when new lands must be brought into cultivation, when new mines may with safety be opened, when the different classes of capitalists can expand and when they must contract their operations, and so on. They also let the world know the points at which monopolies and exploitations of one industrial class by another are possible;—the significance of all of which will be seen farther on.

And now to come to this problem of Value, which is not, as we have said, a problem of the *ultimate* cause of Value in general,

as that, indeed, would be easy sailing; and Jevons and Böhm-Bawerk need not have taken volumes to convince us that it has its roots ultimately in the single element alone of needs, desires, satisfactions, or, as they call it, Utility, (for that is a truism and platitude) but is a problem of the cause or causes which enter into the values of particular things—quite a different matter. And the first observation we have to make is, that as the problem, as we have shown, is a *dynamical* one; and as all dynamical things which have an environment in which they function, must follow the general law of Evolution from the standpoint of which this book is avowedly written; it follows that the market price of no commodity or service can be explained by detaching it and hanging it up by itself in mid-air, as it were, for inspection and analysis, but must relate and attach itself to the skirts of a *previous* market-price of the same commodity or service, and that to a previous one again, and so on—modified, of course, at each turn of the industrial wheel, by the new environment in which it finds itself; in the same way as the special points of a particular animal or plant can only be explained by the points of the animals or plants which were its immediate progenitors, modified by its own special environment.

With these as preliminary, then, let us put our commodity on the wheel, and try and see how its market-price is determined. We will suppose it to be the product of some new undertaking of which, although it may be launched with a starting price and a fairly accurate estimate of its costs by its projectors, there is no way of knowing how it will be received by the public, or what the returns are likely to be, until it is tried. At this stage although formally on the wheel, it is not yet *economically* on it; for until the wheel has carried it round full circle a time or two, the public will neither have had time to get cognizance of it, and to express by their demand for it at its starting price, the satisfaction they expect to get out of it, nor will they have settled in their own minds whether the

starting price is one which will continue to suit their pockets. This is the tentative stage in fixing the value; if the commodity hangs fire, the price is lowered with the object of tapping a different class or stratum of the public; and if the demand still lags, again lowered; and so on. When at last a sufficient number of experiments of this kind have been made, and the commodity has found its public as it were, then it is quoted, and falls under the cognizance, and to a certain extent control, of the central exchange dealing with that class of commodity, and can be said to be *on the market*, and to have had determined for it its market-price or value. Now when put in this way, it will be at once seen that this market-price is a *relation* between two sets of persons occupying for the nonce two different sides of the wheel, the producers and consumers, and so cannot be determined by either set alone; neither by the *costs* to the Producers alone, as Mill and Ricardo would have it, nor yet by the *satisfaction*, or 'utility,' given to the consumers alone, as Jevons and Böhm-Bawerk contend, but by some kind of *relation* between the two, as Mr. Hobson has shown. And the question now is, first, in what terms can this relation be best expressed so as to correspond to the facts, and to be not only true, but most practically serviceable; and secondly, how is our putting the article on a revolving wheel, going to help us to determine its value by the process of evolution?

In the first place then, it is evident that we shall never get the price out of a relation between the cost and the satisfaction, so far as an *individual* at any given *point of time*, is concerned, inasmuch as there are always times when no object will give him satisfaction, as for example, as we have said, when he has just eaten his loaf and does not want another at any price, or when he has already bought all the household necessaries he requires, and does not want any more. In the former case, the unit of time necessary to get the market price would have to be continued and extended until his appetite came round

again; and in the latter, he is no longer in the market as consumer, and so there cannot be in his case the relation between consumption and production necessary to determine a value. So far, then, it is evident that the relation must be one operating not at *points of time*, but in a *continuous* section of time, the length of which must correspond to the length of time necessary to make the article or commodity. If it took an individual a week to make his loaf of bread, it must last him a week, or he would starve in the end; if it took him a year to make a fishing rod and hook, the fish caught must, for the same reason, last him a year. And it is the same with a nation. If it takes it a year to make a commodity in sufficient quantities to supply the wants of its people, so that any particular individual may be able to get it at the point of time at which he wants it, some other individual must put it on the market at that time; and therefore, in order that *all* the persons in the nation may have it as they want it, it must be put on the market at *all* the points of time. And from this, again, it follows that if the time is represented by a single revolution of the wheel, the only scientific terms in which Value can be expressed are those of the *quantity* and *pace* of commodities around a wheel; and that the problem of Value must be a relation between the quantity of a thing produced in a given time, and taken off in the same time; or if the quantity is fixed, on the relation between the time it takes to be put on the wheel, and the time it takes to be taken off;—all the costs, difficulties, and scarcities involved in the production of commodities, all the marginal utilities, personal satisfactions, etc., involved in their consumption, being summed up, as it were, and finding their expression, in the relative *quantity* or *rapidity* of their coming on and going off the wheel; all these elements which enter into it being submerged henceforth, and so passing out of cognition or estimate, and replaced by the single category of *units of economic quantity produced, as against units of economic quantity consumed, in given units of*

time. If the commodity cannot be had in its usual quantity at a given moment of time, it means that some obstruction has taken place on the production side of the wheel—as a failure of crops, or the exhaustion of a mine, or an industrial 'corner,'—and as the two sides of the wheel must, as we have seen, keep time with each other, the consumption side must slow down to keep pace with it; and this it can only do by a rise of price. On the other hand, if the commodity is accumulating in greater quantities at any point than can be taken off, it means that the production side has been stimulated and is running too fast,—whether it be through better harvests, better machinery, new inventions, quicker and simpler processes, or what not,—and that the consumption side can only keep pace with it by a lowering of price, and so a carrying off of the congestion by a demand for a greater quantity at that lowered price; the pace being determined on the one side, as in a four-in-hand, by the slowest-footed of those engaged in the production of the commodity, that is to say by those who can only get their goods on the wheel under the *greatest* difficulties of labour and cost; and on the other, by those consumers who have the greatest hesitation, disinclination, or difficulty, in taking them off; all the rest of the producers benefiting by the increase of price caused by their slower-footed brethren, and all the consumers losing by it; while all the rest of the consumers gain by their own laggards, and all the producers lose by them. From all of which it is evident, that the market price of any commodity is simply, in the language of the market, a relation between the quantity of its supply and the quantity of its demand at a given point of time, and at a given price; any change in the market price having the effect of determining, through the agency of the men on the axle, what amounts will be thrown on the wheel at its next revolution; and this, in turn, reacting on the price at which it will be taken off again;—the two sides of the wheel keeping time and step together as before. And from this, again, it

follows that there is no normal, or *natural*, price of a commodity, depending on Labour-cost alone, as Mill and Ricardo thought,—and as distinguished from the separate market prices from day to day, which depend on the relation between the supply and the demand;—and further, that these market prices of a commodity, like the supply and demand of the commodity itself, are not fixed but fluid, attending the commodity around the wheel as its shadow, and keeping time and step with it as its lackey, just as we saw the paper credits do in a former chapter. In other words, the problem of Value or Market price, like all other problems of Political Economy, is a *dynamical* problem and not a statical one, and must be solved by dynamical methods and symbols from the very start, and not by the statical ones everywhere in vogue among the academical Economists;—it must, in short, be solved by the 'wheel,' not by the rigid 'stick,' with its imaginary sub-divisions into indefinite numbers of homogeneous units or increments, tapering down, like tails, to their zeros of 'marginal,' or 'final' costs and utilities. Indeed, it is only because the problem of Value is a dynamical one, dealing with *continuously* revolving economic quantities and continuously changing prices corresponding to them, that the advisers of the Chancellor of the Exchequer can form the shrewd guesses they do, on the relations between taxation and revenue.

Now all this will be more apparent when we come to the problem of Distribution, but in the meantime we still have to enquire, not what factors enter theoretically into price, or how price in itself is constituted, but how best a market price can be practically fixed and made definite; in other words, what is the best way to determine that a small diamond, for example, shall cost as many pounds as a loaf of bread does pence, in spite of all ordinary fluctuations in the market price of either. And here, again, the dynamical method of solution is not only the simplest and most definite, but the most scientific as well; inasmuch as it applies to new and as yet untested commodities;

whereas the analysis of price into its constituent elements, assumes that the price has *already* been determined. And the only way that the price can get started is, as we have seen, by throwing the commodity on the wheel, and letting it evolve, as it were, its own value by a series of trials; in the same way as we have to put a horse through its paces before we can estimate its chances when entered in a race against other horses. Knowledge of existing business, and knowledge of human nature, may have taught us much, and our forecast may prove correct, but it would be a *psychological* forecast mainly, not an *economic* one. But to proceed by breaking up an economic problem into its ultimate psychological constituents, and trying to solve it by that method, is as if, wanting to know the exact relation of objects to each other in a landscape, instead of using our natural eyes for the purpose, we should try to get at it by looking at it through each constituent of an artificial eye in turn,—the curve of the cornea, the contraction of the pupil, the composition of the retina, or the use of each eye separately—and then piecing the separate results together. Why, then, seek to get at the problem of market-price by breaking it up into its costs and satisfactions, its 'marginal' utilities, and other psychological and economic débris, when the wheel with its axle,—and the men on it in touch with every part of its circumference—is already there, like an organized eye, ready and waiting to do it for us? If Shakespeare had waited until the analytical psychologists had at last managed to get the movements of the cells of the brain under a glass case, before he wrote *Hamlet* and *Othello*, he would have died with them unwritten. And even when the psychologists had reached their goal, I suspect there would still be something wanting somewhere, before they could give us another *Hamlet* or *Othello;* just as in a highly complex chronometer, if the smallest cog in its wheels, the minutest contraction or expansion of its metals were omitted, it would not keep accurate time. Besides as this method of the Economists is purely analytical,

and not synthetic, nothing practical, in the way of construction, can emerge from it. It is as if we were to break up our brick into brick-dust, and then attempt to build with it. Better by far leave it as a simple brick, and not be too curious as to the nature or composition of its ultimate constituents. Besides it is to reverse the true method of all the sciences, which as they increase in complexity must gather their analyses up into concrete synthetic symbols if we are to use them for hanging other deductions upon; in the same way as in Mathematics we must gather up discrete analytical particulars into general xs, and ys, if we are to solve the more difficult problems, whether of the pure or the applied science. And this I have attempted to do for Political Economy by the symbol of the wheel. And hence it seems to me that to descend farther into the ultimate analysis and dissection of Value than that of the pace with which quantities of commodities are thrown on the wheel and taken off again at any given point of time, would be to focus your subject-matter too microscopically for the purposes of a science of Political Economy, whose end and aim is that it shall eventuate in an Applied Science for purposes of practical policy and business utility; and would be like applying the microscope to every square inch of the face, in the hope that you were making a more profoundly scientific analysis of its beauty or ugliness, when in fact you would be depriving it of the focus and perspective on which all beauty or ugliness depends. It would be, as we have said, a psychological, or biological, study, rather than an economic one; as much so, indeed, as in the case of our over-subtle economist who proposed to construct his system on the relation between the nerves of sensation and the nerves of motion. In Literature, Music, and Painting, it is true, we make use of an *internal* psychological standard and standpoint for focussing our material, and not of the grosser *outside* standpoint of the movements of the player's arms or fingers, the composition and mixture of the artist's paints, or the merely grammatical structure of the

poet's sentences; but in Political Economy it is different. For here quantities of gross material commodities supplied or demanded in given periods of time, are of the essence of the problem,—and not the bodily or mental difficulties encountered in the production, or the desires or satisfactions entering into the consumption of these commodities; and therefore our focal standpoint must be a purely material one like that of our dynamic mechanical wheel.

But the main reason why the definite market prices or values of all economic commodities, not only are, but must be, best determined by actually putting them on the wheel—and not by trying to reduce them to any merely abstract statical law formulated in terms either of costs alone or utility alone, or even of the relations between the two,—is because *combination* as well as *competition* operates at all points both on the production and on the consumption side; and because combination and its results having no law, cannot be reduced to law. For a man who has a thousand pounds which he is free either to invest in some productive enterprise, or to spend in articles of consumption, has the advantage in every bargain over a hundred separate and unrelated men who have ten pounds apiece to invest or consume, inasmuch as he *is* a combination, while they must be, owing to the difficulties of combination, mostly or mainly competitors. And inasmuch as combination, whether on a large or a small scale, always 'partakes,' as Plato would say, of the nature of monopoly; while monopoly, in turn, knows no law but that of Power or Expediency,—any more than does a military or a political despotism;—the upshot of it all is, that there is no known *à priori* way of determining actual and definite market prices or values until they are put on the wheel, and have been ground out by it in its revolutions. And one may even go farther and say, that when we remember that 'freedom of contract' involves the freedom to combine, as well as the freedom to compete, there cannot be, it is evident, with the

present rules or conditions under which the game of industry is played, any scientific law of Value at all—if by science we mean the power of predicting the actual market price of new and untried commodities, and not merely of dissecting out the ultimate factors entering into the market prices of old ones.

CHAPTER IV.

THE ACADEMICAL ECONOMISTS.

(Continued).

ON INTEREST.

IF, as we have endeavoured to show, Jevons and Böhm-Bawerk have failed to solve the problem of Value by resting it on a single factor, Utility, much more will their failure be apparent in their solution of the problem of Interest. Indeed the depth of absurdity which Böhm-Bawerk has reached in his solution of this problem, through his determined adherence to the one-sided Economy of Jevons, is one of the best illustrations which these latter days afford of the pedantry and sterility into which the academical Political Economy has fallen by making of itself a narrow specialism divorced from the broad general currents of the business world. The problem of Interest has always been a controversial one in its purely economic aspect, but its ethical justification since the days of Aristotle—with the Canon Law of the Church thundering against it all along down the Middle Ages—has been to many pious souls an even more perplexing one. It gave Ruskin, who was himself a wealthy man and in his early days drew a large part of his income from it, many a pang in his later years, and I imagine he went to his grave with the problem both on its speculative and on its ethical side still unresolved. But to see how Böhm-Bawerk proposes to solve

the problem, we must search for the root-principles of his solution in the scattered seeds let fall by Jevons; and in doing this, we shall at the same time be enabled to catch a passing glimpse of the more characteristic innovations made by Jevons himself in the orthodox Economy bequeathed to him by Mill and Ricardo. But it is important to remember at the outset that Jevons in practically all other doctrines but those of Value and Interest still adhered to the orthodox Economy. He believed, for example, in the orthodox theory of Rent and Population; and held with Mill (but with a difference) that Wages are paid out of Capital and, in consequence, that if Trades-Unions can get a higher rate of wages out of this capital, there will be less left to be divided among the other workers; as well as other illusions deducible from the orthodox symbol of the divided stick. Again, like the orthodox Economists, he could find no place for Consumption as a definite factor in his system, and so did not see the essentially *dynamical* nature of the science,—a cardinal and fatal illusion if our previous demonstrations have any validity. Here and there, it is true, he introduces a variant on the old doctrines, as when, for reasons which we shall presently see, he contends that although Capital is the result of Abstinence, it is the abstinence of the labourer rather than of the capitalist; or again where he denies that Profits must fall if Wages rise, and *vice versâ*, because, as he says, not only are Profits not a fixed amount, but Ricardo's 'iron law,' which keeps Wages down to the 'bare subsistence' level, is not a true law; and therefore, that in the progress of society, although Profits always tend, they need not actually fall, as Mill feared, to a minimum after all. But as these are minor divergencies from the older doctrine, and still leave its fundamental principles unchanged, and as we have already tried to show in former chapters that the foundation principles of the orthodox Economy of Mill and Ricardo are all alike illusions, nothing more than the bare mention of these modified orthodox views of Jevons need

detain us here. Besides, it was not on these, but on his doctrine of 'final utility' as the sole 'cause' of Value, that he most prided himself; and it was on this doctrine that he hoped to lay the foundation for a new system of Political Economy. And as we have already discussed the fallacy of this one-sided explanation of Value in our last chapter, nothing remains for us here but to piece together those scattered observations bearing on the problem of Interest which he left more or less undeveloped himself, but on which his faithful disciple Böhm-Bawerk seized as a prize, and carried to their equally one-sided conclusion.

To begin with, then, we may note that at the very outset, Jevons falls into a fallacy which of itself is sufficient to ruin any and every deduction based on it. It consists in his identifying 'fixed' with 'circulating' capital, and both with 'the food and maintenance of labourers'; thus obliterating at the start what we have seen to be one of the most important distinctions in Political Economy, and the one, moreover, most fruitful in practical consequences. Or, to quote him precisely, he declares categorically that 'Capital consists merely in the aggregate of those commodities which are required for sustaining labourers of any class or kind engaged in work'; that 'to invest capital is to spend money—or the food and maintenance which money purchases—upon the completion of some work'; and generally, that 'all employments of Capital resolve themselves into the fact of time elapsing between the beginning and the end of industry'—or in other words, that the longer it is necessary that labourers should be employed on an industrial undertaking before the finished product can appear, the greater the produce will be, and that this lengthening of the interval of time between the beginning and the end of the undertaking is the 'sole' use of Capital. And to punctuate and definitize these separate observations, he adds that he 'would not say that a railway is *fixed capital*, but that *capital is fixed in the railway*.' That is to say, that as the 'fixed capital'

of the railway is only the food and maintenance of the workmen during the time they are engaged in preparing and making the railway, and as these, in turn, are the same as the money wages spent on them, it follows that, economically considered, a railway, a factory, or an engine, is identical with the money spent in making or building it—nothing more.

Now if there is one thing which in our discussion of the Free Trade problem we have attempted to demonstrate more fully than another, it is that there *is* something more in an engine or a machine than the money spent on its separate materials and on the putting of them together. There are besides, the economic *powers of Nature* which play through the engine, or the machine, when once it is made; and these economic powers are added as a *free gift* over and above the maintenance of the workmen when engaged in making it and keeping it in repair,—economic powers which if we take a steam engine, for example, will do for its capitalist-owner the work of a hundred men, say, for each man employed in making it, repairing it, and supplying it with fuel; and what is more, will *continue* to give him this surplus as a free gift so long as the engine lasts; in the same way as a charge of gunpowder when used for purposes of blasting, contains a thousand times the quantity of pure economic labour-power that is bought in the work of the labourers who supply the saltpetre, charcoal, and sulphur, of which it is composed. It is only the economic *powers of Man* which can be got out of the food and maintenance of the labourers while they are at work, and not what in this volume we have distinguished as *powers of Nature*; and these economic powers of Man, without the use of machinery to help them, practically 'eat their own heads off' economically speaking. So that to have made his argument consistent, Jevons ought to have made his engine keep his labourers not only while they were making it, but—allowing for repairing, running, and stoking it—as long as it lasted. Or to be still more precise, he ought to have made it keep them and their

heirs *for ever*, just as it would be in the case of the interest of a money loan, inasmuch as with a portion of this free gift of economic power set apart as a sinking fund to replace the engine itself when it was altogether worn out, the capitalist could supply another ready to take its place, and yet another, and another, and so on *ad infinitum*. But were he to do this, where does Jevons imagine that either the interest or the profits of the capitalist would come from? And would the capitalist then be so anxious to get hold of that engine? I suspect not. But as the capitalist, when once the engine is made, has only to employ, say, a single labourer to repair it and keep it in running order, and perhaps another to supply the coal for stoking it, out of the hundred he had to pay for making it, we begin to see where his interest and his profits come from, namely out of the surplus of economic powers of Nature which the machine now yields him as a free gift; precisely as it is out of the powers of Nature in the soil that the farmer gets the surplus which will enable him to pay both the wages of his labourers and the rent of his landlord. Indeed, as the game of Industry is money-getting, one shrewdly suspects that if the *use of capital*, as Jevons thinks, is to keep the labourers while they are at work on making any machine or instrument of production, the *object of the capitalist* in using it, is to enable him to capture through the machines those economic powers of Nature which will yield him a margin of 'surplus labour' for nothing at all. It is true, of course, that the competition of rival owners of like machines will, by the cutting down of the prices of the products, hand over a large part of this free gift of labour-power to the general public who buy the products of these machines. The reason they are not obliged to hand over the whole of it will be seen later on; but in the meantime what we have to note is, that Jevons, by grinding down 'fixed capital' into 'circulating capital,' and both alike into the money-wages paid the labourers while engaged on any given industrial undertaking, instead of

improving the Science by giving it, as he imagined, a greater unity, was in reality merely mixing and confounding its categories: and that this, which his followers hailed as an advance, was actually a retrogression. For even Mill and Ricardo, whom they threw overboard for Jevons, saw that there was a distinction *somewhere* between 'fixed' and 'circulating' capital, although by not seeing clearly precisely where it lay, they got off the track and lost their way when they came to apply it. Indeed, the orthodox Economists have all along seen the difference between 'fixed' and 'circulating' capital in the case of Land, and have recognized that the 'surplus product' from which all concerned with it are paid, comes from the powers of Nature yielded as a free gift by the soil; but they have been slow to see that it is precisely the same with machinery, where the powers of Nature involved are in the form of steam, electricity, etc., instead of soil. Karl Marx, too, saw that there was a 'surplus value' to be got somewhere out of machine production, but not seeing that it came out of the machine itself,—that is to say the inventor of the machine,—and not out of the money capital of the capitalist or the work of the labourer, he ruined his theory of Political Economy as a system, by arguing that this 'surplus value' must come out of the work of the labourer alone, whom he chooses to represent as having been 'exploited' by the capitalist. Formally he was quite right, inasmuch as the capitalist is the owner of the machine, and therefore of its gratuitous productive powers; but if anyone has a right to complain, it is the inventor of the machine, who, if the question is one of 'exploiting,' has been exploited both by the capitalist and by the labourer. But to imagine, as Marx does, that it is out of the miscellaneous mass of navvies, coal-heavers, and ordinary humdrum working men of every class, who neither invent nor originate anything, (and who, but for the machines, would 'eat their heads off,') that the surplus value inherent in the machine is exploited, is frankly as if he were to identify the work of a locomotive with

the work of the engine driver and fireman, and of the miner who supplies it with coal. It does not follow that because the inventors have been robbed of the surplus which is as direct a product of their ideas as ever a landlord's rent was the surplus product of his soil, that therefore we are to shut our eyes to whence the surplus out of which Interest is paid so palpably comes, and to allow either interested politicians on the one hand, or political economists professing not to see, on the other, to lead us around on their artificial elaborate search; while one section of them stands over the working men, and pointing to them exclaims;—'Here are the men who make the surplus which the capitalists exploit,' and another set stands over the money capitalists and cries 'Behold the makers of the wealth of the world!'

But if the surplus comes neither out of the money capitalists nor out of the great masses of ordinary working-men, neither does it come, as Walker contends, out of the organizers of labour, the *entrepreneurs*, whether capitalists or not; for their work consists mainly in bringing the machines together under one roof, and planting their manufactories in such situations as shall give them at once the easiest access to natural powers. and the best facilities for transport; as well as in turning everywhere to account most cheaply and methodically, that principle of the 'division of labour' which, although it was reasonable in Adam Smith to believe was the cause of any 'surplus value' from manufactures,—inasmuch as in his time the great inventions which have made the wealth of the modern world had not yet appeared,—it was unpardonable in Mill, who living in the very midst of their triumphs, still harked back on the 'division of labour' made possible by them. as if it were their main function. It is true, of course, that the services rendered by the *entrepreneurs* of the world are most value-producing and important, but they are rather of a negative than a positive character, inasmuch as they depend for their efficiency on the powers of Nature embodied in the

machinery and processes which these men have been permitted by law to appropriate after the short periods of their patents have expired, and without which, indeed, there would be nothing of value for them to organize. No, it is out of the machines and the brains that have invented them, that the 'surplus value' out of which Interest and Profits are paid mainly arises, and not out of the work either of the capitalists or of the workmen as such: so that if the question of Interest is to be discussed on ethical grounds, the discussion must be based from the start on a series of exploitations, beginning with the capitalists who first exploit the labourers, and ending with both in turn exploiting the inventors and discoverers. And with this, by way of preliminary, we may now return to the views of Jevons and Böhm-Bawerk on the problem of Interest.

To begin, then, with Jevons;—it is evident that having ground down 'fixed' into 'circulating' capital, and both into the money wages of the labourers when employed in making any particular instrument of Production,—whether it be a machine, a railway, a manufactory, or what not,—and so eliminating the gratuitous economic powers of Nature from his problem, he has left himself no surplus anywhere on which he can draw for the payment of Interest; and the question now becomes where does he get it from? He expressly asserts that the increase of the product comes out of Capital and Abstinence; but as the capital, as he also asserts, comes out of abstinence, and not out of the machines, there is evidently no source from which interest can come, unless it be out of the labourers. And this, indeed, he indirectly admits when in discussing the rate of Interest and the reason why it tends to equality, he urges that it is because 'the workers all live on the same things,' and so furnish a common level fund from which by abstinence on their part, a common level rate of interest may be skimmed off;—and for this, at least, we may remark in passing, the Socialists of the

school of Marx, usually so hostile to Jevons, should have thanked him. Starting, then, from this, he goes on to observe that when once the particular industrial undertaking is finished, the rate of interest on the capital invested in it will 'vary *inversely* as the period of investment;' so that if you do not increase the number of your labourers, but go on adding successive increments of capital *long enough*, the capital will yield no interest at all;—all this being illustrated by a mathematical diagram in which you see the interest shrinking more and more, while the wages of the labourers increase more and more as the interest falls. And the question we have to ask is, what has he done, in order to get this result? The answer is, that he has been guilty of all the fundamental illusions, both in method and treatment, of the orthodox Economy which we have already passed under review, and some of which we have already emphasised in dealing with Mill. He has made Interest, like Capital, depend on abstinence; he has neglected the element of Consumption; he has separated the factors of a complex whole, and treated them as if they could each function independently; he has kept the element of Labour rigidly fixed, while allowing Time and Capital to be elastic and free,—instead of either keeping them all alike definite, or all alike free,—and so, like Mill, starts either with unnatural combinations which breed economic centaurs, monsters and chimeras, or with crippled premises in which half of the problem, namely Consumption, is left out. He has proceeded, besides, on the statical fallacy of the divided stick, whereby if interest falls, wages must rise, and *vice versâ*, instead of on the dynamical principle of the wheel, where both must rise or fall together, and so on;—all of which it would be a work of supererogation to re-argue in detail. But a single consideration will be sufficient to show the fallacy of the whole argument, and it is this;—if the interest, as Jevons contends, becomes less and less according to the length of time of its investment, while the wages rise higher and higher owing to the number of the labourers

remaining the same, it is evident that this result can only occur if the labourers instead of spending their wages on the product abstain from doing so, and put it in an old stocking, as, indeed, Jevons' theory of abstinence requires them to do. But as they, unlike the capitalists, have no reason for abstaining, and as they have only the product of their own work, by the hypothesis, on which to spend their wages, the probabilities are that they will not abstain; and in any case Jevons is put on the horns of this dilemma, namely, that if they do spend them, the increased consumption which comes from their increased wages will so raise the price of the product, that the capitalists will get all their interest back again in this rise of price; whereas if both capitalists and workers go on abstaining, as the hypothesis assumes, there will soon be no demand, the enterprise will have to close down, and neither the capitalist nor his workmen will get either interest or wages at all! The truth is, the whole method is so false through and through, that there is nothing true in the demonstration but the abstract mathematics, where if you put in a general error or fallacy in the premise, it will only bring out a more precise and definite error or fallacy in the conclusion. But indeed I should not have introduced this theory of Jevons' here at all, had it not been a stepping stone to the still more celebrated, but sophistical, doctrine of his disciple, Böhm-Bawerk, which I am anxious in as few words as possible to introduce to the reader.

Jevons, then, having ground down Capital into the food and maintenance of the labourers, the factors which he bequeathed to Böhm-Bawerk out of which Interest and Profits had to emerge, were not machines and processes embodying gratuitous economic powers of Nature, and yielding products which are continuously being produced, consumed, and reproduced, but simply the money-wages of labourers, out of which the fund both for interest and profits had to be saved by Abstinence and Time; and the problem, accordingly, for Böhm-Bawerk was, not only how Interest was to be got out of these abstract or

negative factors, but how its rate was to be determined. Jevons' theory was, as we have seen, that the rate of interest varied inversely as the time of investment; but as he made the value of all things depend on 'final utility' and not on Labour, Böhm-Bawerk, in following his master, was severely put to it to find anything but Time alone out of which Interest could emerge. For Jevons, in grinding down the machines into the mere food and maintenance of the labourers, had, like the proverbial man who threw away the child in emptying the water out of its bath, thrown away the economic powers of Nature with the machines; and so had left no source from which Interest could emerge,—unless indeed, as we have seen, from the labourers' wages, by an enforced abstinence from which part of these wages could be exploited and deducted. But as it was Böhm-Bawerk's theory that all increase of production came from a union of Nature and Labour, as in the case of the land, he could not see how mere abstinence could ever get an increase out of Labour alone, when once the powers of Nature could no longer co-operate; and distinctly says, that when thus left functioning *in vacuo*, saving, or abstinence, can never be a 'means' of the increase of production, but only a 'motive' for it. And accordingly, as is usual with him when following his master, he went a step or two farther, and boldly throwing overboard at once both the work of the labourers and their abstinence, reduced the problem of Interest to a function of Time alone. Now, it may seem to the reader a somewhat difficult feat of conjuring, to get a solid substantial asset like Interest out of this detruncated stump of Time alone, but Böhm-Bawerk was equal to it; and, nothing daunted, set out gaily, accordingly, after the manner of most German authors, with provisions for a long siege; passing some scores of writers on the question of Interest under review before he arrived at his own theory, founded on Money functioning in an element of Time alone. To sum up his conclusion in a word;—it is that Interest is not what you pay for the *productive use* you

can make of the money you borrow, but, on the principle that 'a bird in the hand is worth two in the bush,' it is simply what you have to pay the lender for his having to wait a year, or five years, say, for the satisfaction which he might have had to-day out of the money if he had chosen to spend it, and for the pain of having to wait for this satisfaction until the money is returned to him a year or five years hence. But as the waiting is more painful at the start, when he has to contemplate the long vista ahead of him with all its uncertainties, but gets less and less, like the home coming of a friend, as time goes on, until at last when the period is up and the loan is repaid, the satisfaction or 'utility' to be got out of it by its immediate use is the same as it was before the money was lent; it follows that as the interest, when measured in this way by the degree of disagreeableness of waiting, must get less from year to year, the only way to get the *fixed* rate of interest which is to hold over all the years covered by the loan, is by striking an average of disagreeableness among them all; and this average is what is called the rate of interest for the loan. Stripped of all its technical jargon and long-windedness, this, in brief, is Böhm-Bawerk's complete solution of the problem of Interest. And what we have chiefly to remark about it in its general aspect is, that it is after all only a solution from the point of view of the *lender;* but as 'it takes two to make a bargain,' we still have to ask,—how about the *borrower?* If he had obtained the money purely for personal expenditure and enjoyment, and so cannot pay at all, then the loan falls under the category of an error of judgment—and so forms the subject-matter of Psychology, but not of Political Economy. On the other hand, if it has been borrowed to invest in some legitimate industrial undertaking,—in the purchase of land or machinery, or processes of manufacture, or means of transport, or productive business services generally of whatever kind, whether in new undertakings or in the extension of old ones, (and it is these and their collaterals that are the only kind of

loans with which Political Economy has to do);—how then does the matter stand? Now, if the industrial undertaking for which the loan is wanted, is a new and untried one, the borrower will have to pay a higher rate of interest than if it were an old and established one, as his banker will not be slow to remind him; thus proving that the rate varies not merely with the *feelings* of the lender in parting with the loan, but with something in the financial *circumstances* of the borrower as well. And as it is on the strength of the confidence, both of the lender and borrower, in the industrial enterprise yielding the necessary surplus to repay the loan and its interest, that the agreement has been made, it is a proof, I submit, that the Interest comes out of the *productive powers* of the machine, the mine, or the processes concerned, and neither out of the mere lapse of Time, nor yet out of the disagreeableness which the waiting involves. And that there *is* a surplus fund in the economic powers of Nature embodied in the machines, processes, means of transport, etc., which is conferred as a free gift on their possessors after all expenses have been paid, the whole of this volume has been one long demonstration. If the enterprise should fail, it is because the expenses exceed the surplus gift—and so it has been a miscalculation and foredoomed failure from the start, and has no further economic significance. Now, in thus labouring what to most business men must seem so palpable a truism, I must apologise to my readers, to whom this long rigmarole about nothing, as they must regard it, cannot have been a greater boredom to read than for me to write. And indeed it is probable that in the world of men, no one could be found to countenance the waste of time spent on it, unless indeed it were some academical political economist, sitting in the decadence of his unreal and exploded specialism, spinning cobwebs of economic perpetual-motion out of principles which, as we have seen, have had from the beginning no dynamical or motor-power whatever.

But Böhm-Bawerk is not to be so lightly gainsaid without

a desperate effort to defend himself and his theory. And accordingly, of the scores of writers whose views on Interest he passes under review, what thinks the reader is his one reply to all those who contend that the interest must come out of the increased production of the machines? It is this:—Admitting the increased productivity that comes from the co-operation of capital with labour,—not because the machines add a surplus as a free gift, like the land, but because they make, as he says, 'the adoption of new and profitable methods possible'—how do you know, he asks, that the products will not have been so cheapened by this very excess of productivity, that by the time the loan is due they may not repay the outlay? How, in a word, do you know that the product, say, of a new and improved loom may not have so cheapened the cloth, that the profits will not repay the cost of the machine? How, indeed? we reply, if you choose to put the matter in that way, any more than you can get the interest on the money borrowed to pay for the machine, if before the time of repayment a still newer patent has so undercut the price of the product, that the machine itself has had to be 'scrapped' for old iron. As well say that there was no fund for the repayment of interest in opening up a diamond mine, because diamonds *might* go out of fashion before the diamond deposits were reached, and so might be worth no more than their paste imitations. It is not *all* machines or processes that can yield a sufficient surplus of economic powers of Nature to pay the expenses involved in liberating them; and when they do not, neither workers nor money-lenders can be sure of getting either their wages or their interest out of them; but if the money-lenders do get their interest, it is out of these free gifts of Nature that it comes, not out of the disagreeableness of waiting for the return of the money lent, on the part of the lender; nor does it depend for its rate, on the length of Time alone. And hence this reiterated question thrown by Böhm-Bawerk in his extremity as a Parthian shot at his opponents when he is

closely pursued, is as absurd as the appeal of Jevons to the price of old coins, old pictures, etc., when trying to prove that Value does not depend on Labour-cost, but only on "final utility."

Thus far, then, Jevons and Böhm-Bawerk. But now let us put the problem of Interest on our wheel, as we have already done that of Value, and see whether the solution it yields will prove any more satisfactory, or be more in consonance with the knowledge and experience of men.

To begin with, then, we may premise that the game of the industrial world is money-getting, and quite as much so in the case of those who have money to lend as of those engaged in definite industrial operations. And with this we may further observe that there is in every industrial community always a certain amount of free money, very elastic in quantity, ready to be loaned on interest, and varying in its amount according to the security offered for its repayment when balanced against the abstinence entailed on the lender in parting with it. Now if these separate sums of money scattered about in the hands of separate individuals were without any mechanism to collect, organize, and negotiate them, it is probable that the rate of interest received by each of their scattered holders would vary according to local and accidental circumstances, and be high, low, or altogether non-existent, as the case may be. But it so happens that there is a central organized market for these scattered rivulets, namely the bankers, brokers, and other money dealers on the axle of our wheel, whose function it is to register, and in part determine, what the general rate of interest on money shall be, in the same way as, on this same axle, there are dealers for every other species of industrial commodity. And the first point we have to determine is:—What is it on which these money dealers keep their eye in forecasting the fluctuations in the rate of interest,—if, that is to say, we are to get at the causes which give rise to Interest,—for he who knows the causes operating in the fluctuations of a thing has

come very near to the causes of the thing itself. And these may be summed up, so far as the bankers and money dealers are concerned, in the one consideration of the supply and demand of money at the existing market rate. In a word, it is in the relation between the quantity or pace at which money is thrown on one side of the wheel by lenders, and the quantity or pace at which it is taken off by borrowers, on the other, that the fluctuations in the rate of interest are to be found,—just in the same way as the fluctuations in the value of any other commodity,—and so it need no longer detain us here, as we have already discussed it in our last chapter.

So far well, but, as in the parallel case of Value, what we want specially to get at is the cause of the *general* rate of Interest around which these fluctuations revolve—the reason, for example, why in one country this general rate is, say, 5 per cent., in another country 10 per cent., or why in one industrial age or epoch of the same country the general rate is 10 per cent., and in the next age only 5, and so on. And for this we must pursue our investigations a little farther, and in doing so, the first and most obvious thing that strikes us is, that it must be a relation between the degree of security, on the one hand, of which the lender is assured, and on the other, the profit that can be made out of the loan by the borrower; a knowledge of both of which is possessed by the men in the central exchanges;—not by the bankers and money lenders alone, nor by the dealers in industrial commodities, as coal, iron, corn, cotton, etc., alone, but by both combined,—as is seen in the anxiety shown on the one hand by the money lenders in critical times to know the state of the crops, the likelihood of the forthcoming supplies of all kinds of industrial products, as well as of any political complications on the horizon, etc.; and the parallel anxiety of the industrial exchanges to know the general state of the money market on the other. But one thing is certain, and that is, that it is not from either of the above mentioned factors *separately*, that a

definite rate of interest can arise. Not from the question of risk or security, even when there is added to it the disagreeableness or disinclination to part with money for a time; for many loans are equally secure even when the purposes to which they are to be put vary from the most to the least profitable enterprises. Not from the profits; for whether those who borrow the money make a hundred per cent. profit or only 10 per cent. out of it, they all alike can borrow it at, say, a uniform rate of 5 per cent. The rate of interest in general, then, can only come from a relation between the 'marginal,' or lowest, rate of profit from industrial investments which is usual at the time, on the one hand, and the stiffest or 'marginal' sticklers for safety and security, on the other; rising with the marginal increase of productivity when the security is fixed, and falling with the marginal increase of security when the productivity is fixed; the relation being identical in principle with what we saw was the case in determining the value of any other commodity. But still, this does not answer the question as to *how* this definite rate or market-price of money is to be determined. The answer is, in the same way as every other market-price is determined, namely by actually putting the money on the wheel, where it will come into touch with the feelers of the central money exchanges both when thrown on the one side of the wheel by lenders, and when taken off on the other side again by borrowers; and where the movement and balance of the wheel itself, whose two sides must keep time and step with each other, will, like a millstone, grind down each separate increment or contribution thrown on to it, to a common and definite uniformity of rate, varying from day to day according to the quantity or rapidity with which it is thrown on and taken off; and that, too, quite independently of the infinity of psychological or business inducements which may have called forth the supply and the demand in each particular instance; every fluctuation in the rate hanging on to the skirts of the rate immediately preceding it, and none being altogether

independent, capricious, or casual;—and all alike forming successive links in a continuous and unbroken chain of orderly and regulated development: the industrial products with their values, the money with its interest, together with the credit notes, bills of exchange, and all collaterals which cling to and attend them, all whirling round and round the wheel from its production to its consumption side, and keeping time and step together.

But the most important practical point which we have now to determine is, whether the actual rate of interest is a *natural* rate flowing from free competition, or whether, like other values, it contains elements of Monopoly?—Now at a first glance it would seem as if nothing could be more subject to the law of pure competition, which of itself when absolutely free reduces all things to equality, than money; for it is at once the most nimble, the most unimpeded, and, in a way, the most lightly moving, of all things; and yet we shall find on closer inspection that it, too, like all else in the present stage of industry, partakes of the nature of a monopoly. In an ideal wheel revolving in the pure ether of a millennial time, there would neither be fluctuations of interest, nor interest itself, inasmuch as all industrial operations would be certainties, all securities equally good, all men honest, and none embarrassed in their fortunes; and whether money were invested or were kept in your pocket, it would be all the same. But as that millennial time has not yet been reached, what we have now to note is that in the present stage of industry, where all new industrial undertakings, or expansions of old ones, have as their object the capturing by the use of machinery, inventions, new processes, etc., those powers of Nature in the soil or mines or machines, which will yield an increase of wealth as a free gift over and above the labour spent on them; and as these must always require floating capital, or money, at short notice to establish and develop them, over and above the amounts on which industrial capitalists and speculators can at a moment's

notice lay their hands; it follows that the possessors of this free capital, or ready money, when brought into a solid *combination* by the bankers and money-dealers, as against the unorganized and dispersed individual farmers, manufacturers, mine owners, and traders (never twice the same people) who must manage to get command of this money-capital if they are to snatch the gains which new enterprises, inventions, or improvements in methods of production will yield them;—it follows, I say, that the money-lenders must occupy the superior position in their bargains with these industrial capitalists, and that having a virtual modified monopoly, they will have the power to levy toll on all men who wish to borrow, whether for long or short periods, and will not refrain from exercising it. For it is not likely that they are going to stand by and see the projectors of new enterprises, or the developers of old ones, who are dependent on them for the ways and means, quietly appropriating the spoils with which the powers of Nature are about to present them, without being paid for this privilege at a modified monopoly rate. And the game of wealth being how you can get the greatest amount of it possible within the limits imposed by the legitimate rules of the game—whether by competition, or still better by combination—it follows that, having the power, the money-lenders of the central exchanges will always keep the interest of money above its natural value, and will take good care that it shall never fall to the zero point while their superior position, as possessors of a modified monopoly, over that of the industrial capitalists lasts; in the same way as an invading host which has taken the lands of a neighbouring country from its former possessors, will never, if they intend to live on rents, permit these rents to fall to zero, whatever may befall either the farmers, the capitalists, or the public in general, who are now in their power (otherwise they would not have entered on the conquest); or as the capitalist masters of industry are not going to allow the wages of the men—so long at least as they are dependent on them for their

livelihood—to swallow up their own profits, whatever the state of the labour market may be. In a word, in the present stage of industrial development, the laws of Political Economy, as in an auction room where certain prices are reserved, will never be allowed to operate quite freely, but only within limits, inasmuch as they will always be controlled by the incidence of Power which springs from the existence of the economic monopolies which different classes of industry possess and exercise over those below them, and which proceed from above downwards in a graduated series of exploitations, the bankers and money-lenders squeezing a 'forced gain' out of the individual capitalists, who in turn squeeze another out of their workmen, while the landlords—were they few enough to hold solidly together, and could keep out the corn of foreign nations—could squeeze all alike. Now all these monopoly powers, which interpose themselves between the different classes of an industrial community are, it is to be observed, purely *economic*; and whether it be a single nation that we take as our standpoint, or the world of nations, they must and will take their tax and toll in the shape of unearned gains, so long as the present industrial régime lasts,—an economic tax and toll which can only be neutralized and redressed by Governmental taxation in turn, whenever this shall be found expedient from the higher political point of view. Meantime we may remark that these economic exploitations, though differing in form from exploitations by the sword or by despotism, are none the less real exploitations, and, what is more important, that they find their fulcrum in that 'freedom of contract' which is the basis of the present industrial *régime*, involving as it does, as we have had so often to repeat, the freedom to combine, out of which these monopolies arise, as well as the freedom to compete which can at best only partially mitigate their effects.

To sum up, then, we may say that the fluctuations of Interest or the value of Money, like that of the value of all other

commodities that are put on the wheel to be ground into definite market-prices, is fixed by the relation between the quantity or rapidity with which the money is put on the wheel, and the quantity or rapidity with which it is taken off at the existing market-rate;—not on an ideal free-running wheel, but on one where modified monopoly powers, economic or legislative, make their entrance at every point and impede its movements, and so reduce the possible amount of wealth that is being constantly produced, consumed, and reproduced. But should a time ever arrive when it shall seem expedient and consistent with the broader and more important issues of national policy, that the nation should itself supply the capital required for industrial operations, instead of entrusting it to the private interests of special classes; then the bankers and money-lenders, as well as the industrial capitalists, would no longer be able to roll themselves up into modified monopolies fighting each for their own hand, but, as the Socialists so devoutly desire, would have their 'teeth drawn'; and Interest and Profits alike would cease, being merged in Wages and Salaries alone.

As for the ethical aspect of the problem;—we may sum it up by saying that if each individual is to receive what each has produced, then so far as either Rent, Profits, or Interest, are concerned,—all of which come from the gratuitous gifts of Nature—these should go in a descending hierarchy of rewards, first, to the Thinkers and Scientists who discover the laws of Nature; secondly, to the Inventors who turn these laws to account by the machinery and processes which they devise to capture and enchain the powers of Nature for the use of man; thirdly, to the great practical Organizers and *entrepreneurs* who can adapt these machines and processes most economically to their particular environments; and fourthly, to the Skilled Workmen without whose co-operation many of the surplus gifts of Nature would be but imperfectly utilized. These are they who have realized the myth of Prometheus and the fire which

he drew down from Heaven as a free gift to man,—and not the merely idle rent-receivers, the do-nothing profit or interest dividers, or the miscellaneous herd of ordinary unskilled labourers,—and if it is a question of abstract economic ethics, it is to them that the bulk of the spoils of wealth should belong. Now in the preceding volume of this series (History of Intellectual Development, Vol. III.), I have endeavoured to show that no merely *abstract* ethical ideal has any realized existence in the world of men,—any more than an abstract ideal love has,—but only a succession of *concrete* ethical ideals developed by evolution, in which the pure ideal is always mingled with elements of a baser strain; and this mixture of elements may be most compendiously summed up in the answer to the question;—what is the particular game that is being played at any given time by a given nation, and what are the accepted rules of that game? In Economics, the game is that of money-getting; and it is played on the basis of the *family* as the unit, and *heredity* as the mode of transmission of wealth, with force, power, custom, and precedence mixed, as its main-stays, and freedom of contract as its accepted method of play; but with the abstract ethical ideal in the background colouring all, and at all times, but only slowly gathering strength out of the clash of these warring forces so unlike in nature to the higher product which is to emerge from them. But it needs little penetration to foresee that the industrial world will have to advance much nearer to the millennial time than it is to-day, before the hierarchy of wealth-distribution which I have indicated above, has any chance of realization.

CHAPTER V.

THE ACADEMICAL ECONOMISTS.

(Continued).

ON RENT AND THE STATICAL FALLACY.

THE earlier orthodox economists were so intent on measuring with their divided stick the relations of the *dead products* of industry, that it is little wonder they altogether overlooked those great blocks of Power which in the last chapter we saw interposing themselves everywhere between the different classes who own the *living instruments of production*—the land, the fixed capital, and the labour,—powers whereby one or other of these classes was enabled to extort 'forced gains' from the rest; and this oversight is as great in the works of the recent academic economists as in the earlier ones. Consider, for example, the naïveté of General Walker, who declares that if workmen will only work harder and better, the increase in the product *must* go to them in higher wages;—but why must it? On the ground, he says, that as Rent and Interest will not be increased, the excess must go to Labour. It would, of course, if the master and his workmen could bargain on equal terms, but they cannot if they would; and the mere fact that each master makes his own bargain with his workmen, cannot neutralize the fact that the informal combination of the master-capitalists as a body gives them an advantage over the class of dispersed workmen as a body, seeing that the one class own

the instruments of Production from which Profits and Interest arise, while the other, divorced from them, are dependent on their masters for their living; and this difference in the *power* of bargaining of the masters over their workmen, involuntarily affects the contract between every master and every individual workman. He could scarcely help taking advantage of it if he would, any more than rival crews entering on a race on even terms can help being affected by the fact that the one is made up of twelve-stone men and the other only of ten, or that the one has the shore, and the other the mid-stream. It was a rare piece of simplicity on the part of General Walker to imagine that the masters were going to throw away this differential advantage under any contract, however free,—and so spoil the game which the trump cards they have been enabled to secure have given them,—by handing it over to their workmen, when they could quite legitimately, according to the rules of the present game of wealth, pocket the difference themselves under that very elastic and convenient category of 'wages of superintendence.' Besides, do the masters in point of fact ever hand over any excess of product to their workmen, however hard they work? Do they do so even in piece-work? On the contrary, they cut down the wages of the piece-work so that it will average with ordinary time-labour, and thereby still retain the differential advantage which their economic position gives them; like the Bank of Monte Carlo, which, while freely allowing you to choose your form of play, has so loaded the chances in its own favour all round—by its zero and maximum—before you begin, that it has the advantage of you in every spin. Is it not, indeed, a truism that wages do not rise *pari passu* with profits, but lag behind them; and is it not only by laborious and difficult combinations on the part of the workmen that they can be got to rise at all? Another equally false assumption of General Walker's is, that it is the ability of the *entrepreneur* or organising capitalist which makes the difference between a dear and a cheap product.

On this he dwells with as much insistence and at as great a length, as if the *entrepreneur* were the very soul and crown of all industry, instead of too often being merely that cunning cuckoo who has managed to turn the eggs of the others out of their nests. It is true that he does a service to industry, and a very great service, but it is the negative one of increasing the produce by picking up the savings that are to be had by a more economical 'division of labour,' not the positive one which can only come, as we have seen, from capturing the great powers of Nature embodied in machines and processes, and which is to be credited to the inventors and scientists, not to the *entrepreneurs*. It is true that the *entrepreneurs* have got hold of the new inventions and processes and are using them; for without them their organizing ability would go a very little way, and would, indeed, be the play of Hamlet with the Prince of Denmark left out. But how have they got them? Mainly by taking advantage of the inventors' poverty it is generally admitted, like those old theatrical *entrepreneurs* whose custom was to throw to the playwright a £10 note and be done with him, instead of the new, more reasonable and more honourable arrangement which divides the profits between them according to the success of the play. But not only has General Walker forgotten the inventor in his apotheosis of the *entrepreneur*, he has forgotten also the advantage held by large and concentrated capitals over dispersed smaller ones; first, in the savings which large-scale production makes possible through the 'division of labour,' and secondly, in enabling the *entrepreneurs* to crush out in detail the competition of the smaller concerns by underselling them. He has forgotten too, the advantage which *situation* itself gives—the proximity to railways, canals, and markets, etc.,—of which the giant industrial magnates can command the pick, but none of which advantages proceed from the *entrepreneur*, although in their aggregate they are so great that without them he would be as helpless to add to the wealth of the world as his own staff of

clerks. But when once he has managed to become possessed of any one of these differential advantages, it quickly,—owing to the tendency of profits to *inequality*,—gives him a fresh lever for seizing more of them; until in the end, with the wealth thus pouring in on him, the poor *entrepreneur*, if he have a sense of humour, must stand in the midst of it all, astonished at the greatness thus thrust on him. But General Walker, believing with all the orthodox economists that profits tend to equality—instead of rolling themselves up like snowballs as the capital increases,—figures each particular *coup* as a masterstroke of genius, and their authors as little Napoleons. Had he read, as I have recently done, the inner history of the Standard Oil Company, he would have perceived to what a set of poor tricksters inflated into greatness by his own imagination, he had given not merely the nominal, but the real primacy of the industrial world.

And with this we may now proceed to the main burden of this chapter, which is to show that if there were nothing more to find fault with, the *method* itself by which these later academic economists propose to solve the problems that come before them, would condemn their whole labours to falsity and sterility. For what they propose to do is nothing less than this;—namely to shear off at a stroke all the *dynamical* elements in the problems of a science which is itself purely dynamical, and when they have in this way taken the life out of them, to reduce them to their purely statical elements, as in a body after it is dead; the excluded dynamical elements being afterwards allowed for under the innocent looking phrase 'other things being equal.' Now this is to kill your subject first, and add the life afterwards—a hopeless procedure! It is a fallacy we have already had occasion to notice in our study of Mill, but it reaches its full flowering in his successors, of whom we may take as examples, Walker, Marshall, and Professor Clark.

To begin with Walker. He is dealing with the problem of Value, and in order to show that it follows the cost of pro-

duction of that part of the supply which is produced under the greatest difficulties and disadvantages, the following are the emasculating conditions to which he subjects the facts before he starts out;—first, that competition must be perfect: next that there is no large stock on hand, but that things are produced as they are wanted; next, again, that there is a uniform demand; then, that there is no large plant, and no great amount of capital or machinery required; and lastly, that the producers have an easy resort to other occupations. Now without dwelling on the obvious fact that he has illegitimately inserted among these provisos which bear on cost of production, one which bears on consumption, namely that there shall be a uniform *demand*—a condition which proves that Value does not depend on cost of production after all, as he contends, but, as we have seen, on the *relation* between cost, and the amount of consumption;—but ignoring this for the moment, is it not evident that these conditions which he imposes on his problem at the outset, reduce it as much to a nullity as if he had proposed to forecast the issue of a foot-race by insisting that the strength and height and agility of all the runners should be equal, and that they should all equally 'toe the line' before setting out; in which case the runners, it is evident, would all end as they began; or as if he were to say that life was the result of the vital principle, that the tree was the cause of the fruit, that two and two are four, and that things that are equal to the same thing are equal to one another,—barren propositions all. For is it not evident that the conditions imposed by Walker can only exist in the very childhood of production,—at that stage of homogeneity, namely, where evolution begins, but from which it is taking it farther and farther every day,—or else in the millennial kingdom itself? Instead of competition being free and equal, it is already being replaced in all the great industries by combination, as we see in the great Trusts; instead of small stocks continually replenished in driblets, huge stocks kept always on hand are the order of the day; instead

of no large plant, no great amount of machinery or capital, the future of industry is by universal admission in the hands of the gigantic capitals and plants concentrated in special centres, and enabled by the present *facilities of transport and communication* not only to hold their own customers but to swoop down on the customers of all lesser concerns as well, and carry them off as spoils; and lastly, instead of the labourers having an easy resort to other occupations than their own, the fact is that with the existing specialisation of work in all industries, it is the most difficult of all things, unless one is a dock labourer, a hod-carrier, or a scavenger. And yet it is all these that Walker proposes to cut out of the problems of Political Economy before he begins his deductions;—as disturbing elements merely, which can afterwards be allowed for, and not as belonging to the very essence of the problem.

And next, let us turn to Professor Marshall, and see what are the conditions for which he stipulates before he can show that the value of two commodities is proportionate to the relative amounts of labour and capital expended in producing them. They are, firstly, that the labour is equally skilled, secondly, that it is assisted by proportionate amounts of capital, thirdly, that the period of investment of the capital is the same, and fourthly, that the rates of profit are equal. It will be observed, in passing, that in this inventory he has avoided the illogical error of Walker in admitting an equality of demand as one of his conditions, for neither he nor Walker allow that the consumption which is involved in demand is a necessary factor and postulate of the Science at all. It is true, as we have already seen, that in his comments on Jevons he sees that Value depends on demand,—that is to say, consumption,—as well as on cost of production, as is evident by his analogy of the pair of scissors each blade of which is necessary to the other; but unfortunately, as he has ruled out Consumption as a definite factor in his scheme of the Science, his consumption-blade could only have had a very negative

function after all, for there was nothing that he could consistently and logically give it to do. But as regards these impossible conditions of Walker and Marshall, what are we to say? In the first place they are right in trying to simplify their problem by reducing all its factors to a common denomination as it were, with the object of finding out their law, but they must be sure, first, that no important factor has been left out; and in leaving out Consumption, their labours have been rendered futile and their deductions false. But even had they recognised Consumption as a definite factor, this simplification of the problem would have availed them nothing, so long as they kept their factors all on a dead level, as in a *post-mortem* room, as parts of a statical theorem instead of a living, moving, dynamical organism. For although statically you may reduce a line to a number of points or units lying side by side, you still have missed something in the line, namely the *dynamical* power which runs them all together. In the same way in a dynamical Science like Political Economy, which has to deal with quantities of commodities and services continually being produced, consumed, and reproduced, you may have omitted none of the essential factors, and yet unless in every practical problem you can manage somehow to catch the dynamical power which keeps all the factors moving and runs them all together as it were, no mere reduction of them to their separate statical units will avail for a true solution. This we abundantly demonstrated, for example, in our discussion on Free Trade and Protection, where we saw that the fallacy of the whole Free Trade argument reduced itself precisely to this leaving out of the motor-power, namely the powers of Nature embodied in the *instruments* of production, thereby reducing it to a question of the passage to-and-fro of the dead *products* of these instruments, to which alone statical methods,—with their apparatus of discrete units and increments thus broken up into a series of separate points instead of forming part of a *continuous* movement—are applicable, and

which would land us at every point in our demonstration in the fallacies of the 'Achilles and tortoise,' and the 'flying arrow' puzzles. And so it is with the problem of Value; and even although in this particular instance Professor Marshall recognised the dynamical element of Consumption as a factor in its solution, he could not have solved the problem until he had thrown all the other factors on the wheel, and so allowed the dynamical elements hidden in them to disclose themselves in its revolutions; thus converting all these factors alike into dynamical instead of statical ones. It is true that I have myself in this volume tried to simplify the immense complexity of the subject-matter of the Science by first postulating an *ideal* wheel, equally balanced, and moving continuously like the heavenly bodies without friction in an aetherial medium, where competition is absolutely free, where all the factors have equal elasticity, and where all are kept in *proportion to each other* by the very revolutions of the wheel itself. But this, it is to be observed, is a dynamical construction, and is, as I shall attempt to prove later, the true method of the Science; and it is from this ideal wheel with its motor powers that I have deduced the laws of the Applied Science, where all irregularities are explained by *obstructions* at this or that point to its free running. So that by my method it is only these obstructions that are relegated to the category of 'other things being equal.' The academical economists, on the other hand, begin at the other end as it were, and hope by *equalizing the conditions* of the problem by means of marginal units and increments, either to do away altogether with the great driving dynamical forces of Consumption, on the one hand, and of Inventions and improvements in the instruments of production on the other, as well as of Monopoly and combinations everywhere; or else to reduce these to so subsidiary a position that they can be disposed of, or allowed for afterwards, under their category of 'other things being equal.' Professor Marshall, for example, thinks that he can solve the problem of Value by equalizing

the conditions of *competition;* and this he proposes to do by equalizing the skill of the labourer, the amount of capital employed, the period of its investment, and the rate of profit. But when he has done this, what chance is there of his finding the element of 'forced gain' which enters into Value from the *combinations* which are now everywhere taking the place of unlimited free competition, and which end either in partial or complete monopolies? Or again, how is he going to get a law of Value by excluding at the outset, as we have seen, the element of Consumption from his list of factors, when Consumption, as we have all along attempted to show, is the motor driving power of the whole wheel of wealth; its variations not only entering into Value, under their common designation of 'demand,'—quite as much so as difficulties of Production, ending in scarcity, enter into it under the common designation of 'supply,'—but actually helping to *determine* that 'supply' by the stimulus given by increased consumption to inventions and improvements in production, etc? So that we have this curious result;—that while the whole problem of Value and of definite market-price is practically covered by the three great dynamical factors of Consumption on the one hand, of Inventions and improvements in the instruments of production on the other, and of Monopoly more or less operative everywhere; the academical economists have thrust all these into the background, as if they were the merest side-issues of the problem; while the primacy and place of honour in its solution is given to such considerations, as how the separate *products* of these living dynamical factors operate—such as the existing stock of commodities on hand, the quantity of money in circulation, the existence of substitutes or other occupations for capital or labour to fall back upon, the lengths of the periods of investment of capital, the rates of its profits, the state of the labour-market, etc.—a mere distracted miscellany of dead particulars, without central living powers to draw them together and impose proportion

and limitations on them: all of them, it is true, affording valuable indications, in their way, of how the matter stands when once you have the key to them, but apt to be as misleading otherwise as if you were to try and determine the staying power of foxes by the respective lengths of their tails! And it is from wandering in the mazes of such outlying distracted particulars, that we have Professor Marshall not only not seeing, but actually denying, that Consumption can enter as a *definite* factor into any economic problem whatever; denying, too, that scarcity rents, as well as differential ones, enter into price; or that a monopoly, the result of Combination, can enter into it; or again that Trades-Unions can raise the rate of wages, etc.;—and all on the ground that a 'substitute' will always somewhere be found, to grind them down to the common level by competition again. If, for example, we imagine that the capitalists have a 'pull' over their labourers, inasmuch as they own the instruments of production, Professor Marshall will reply:—Not at all, for men can be substituted for machines or horses if the profits of any one capitalist get unduly high over those of another, and thereby the competition between the men and the horses or machines will ensure that neither capitalists nor wage-earners, neither profits nor wages, can get any advantage over the other, and that each will get precisely what each earns, under any circumstances whatever. This is what he calls Von Thünen's great 'law of substitution,' and is a most comforting doctrine for the Rockfellers and Astors of the world, inasmuch as it gives them the assurance that however colossal their fortunes may be, they at least have earned them; and however much appearance the labourer may have of being 'sweated,' what he is paid is really all that he has earned. Now of this demoralizing doctrine we may say at once that it may be true enough that the men cannot exploit their masters, inasmuch as if they attempted it, the masters, taking advantage of this 'law of substitution,' would use machinery instead; but why the masters should not exploit

the men, when they have it in their power to cut them off in detail from all access to the instruments of production (above the range of a pickaxe, a spade, or a wheelbarrow) by which alone they can live, is a mystery which Professor Marshall does not think it necessary to explain. Besides, how does he imagine that men can replace machinery, and *vice versâ*, when in ninety-nine cases out of a hundred the work of the men and of the machines is not interchangeable? Does he imagine that because fifty navvies, say, can do the work of a crane in lifting weights, and so can replace the crane if the capitalist demands too much profit for the use of it, that therefore any number of men whatever can replace a locomotive under similar circumstances? They might, it is true, succeed in hauling the train, but where are they to get the speed? Or again, how can any number of men do the work of a ship, or of the mathematical instruments which direct its course? And if not, how can the work of capital and labour be reduced to a common denominator for purposes of comparison,—unless, indeed, it be those forms of capital which scarcely rise in complexity above the work of a navvy or hod-man? As well expect the worker with his hands, by some hocus-pocus of this 'law of substitution,' to be put in competition with the worker with his brains. But if not, how are you going to prevent the monopolists of brains —the inventors and *entrepreneurs* between them—from exploiting the competing hordes of workmen who can neither invent the machines nor do without them? And yet this is what the 'law of substitution' has brought Professor Marshall to, by his method of skimming off the great dynamic forces of the science at the start, under the phrase 'other things being equal,' and thinking that by whipping up the skim-milk he is likely to get the cream! And it all comes from the attempt of the academical economists, by their statical method of the minutely divided stick with its successive units or increments, to arrive at those 'margins of indifference' as they are called where all things being alike interchangeable, they form 'substitutes' for each other.

And this brings us to the academical solution of the problem of Rent, which, by its 'margin of cultivation,' started this marginal method which has had so disastrous an effect on the Science. But to see the fallacies into which the academical economists have fallen on this important subject, it is necessary at the outset to get it into proper focus. And to begin with we may say that in this problem of Rent, the central figure is not the landlord, but the capitalist—whether he be a farmer a manufacturer, or a merchant,—for it is he who starting from the existing market-price of his product, whatever it may be, has to organise and determine on the basis of that price, what amounts of land, labour, and capital, at their existing prices, he can use to make his business pay. And the second point we have to observe is that the way in which he will act in regard to the land, the labour, and the machinery he will employ, will depend on whether it is a merely local market, a national market, or the world-market that he is about to supply; just as in an athletic competition the entries will be different for a local, a national, or an international competition; many of those who would enter for a local one being deterred by a national one, and of those for a national, by an international one. And hence it is that there are as many kinds of rents as there are classes of markets to be served; certain lands available for the local market not being available for a national or an international one, owing to want of transport, or what not. And the consequence of this, again, is that everywhere land of the same intrinsic quality or productivity is put to all kinds of uses,—local, national, and international,—by the capitalists of all kinds who want to use it for their respective purposes;—whether it be farmers who have to decide whether they shall use it for wheat, or oats, or hay, or hops, or stock-raising, or dairy-produce, etc.; or manufacturers and builders, for factories, or warehouses, or dwelling-houses; or peasants, for market-gardening, and so on. If, then, we ask what are the considerations that we must bear in mind in

attempting to solve the question of whether Rent enters into Price or not, they may be reduced, practically, to the following;—first, that the market price of the product is fixed for the capitalist by causes beyond his control, *before* he starts his undertaking; secondly, that this price has been determined as much by the demand for the product in the particular market for which he is catering, *i.e.* by its *consumption*, as by the supply, or the difficulties and costs incident to its *production:* thirdly, that all the products that are brought to any market are the result of the union in a single *complex whole* of land, machinery or implements of some kind, and labour; and that to place the product on the market at the least cost, these must be mixed in certain *definite* proportions, which depend on the nature of the land available and its existing rent, the price to be paid for the machinery or implements used, and the state of the labour-market at the particular time and place; fourthly, that there is no one of these instruments of production,—neither land, nor machinery, nor labour,—but has exchange-value *in general*, that is to say, that no one of them is like water, air, sunshine, and rain, for example, which are all alike without exchange-value in general; and that therefore there is no part of them—no particular piece of land in use, no particular machine in use, and no particular labourer employed,—but has economic exchange-value; and further, that if there be such a piece of land, or machine, or labourer, in *actual* employment, it or he is not in *economic* use, inasmuch as they have no *existence* in the mind of the master-capitalist who is organising his instruments of production for the purpose of putting the product on the market. In a word, these no-rent pieces of land, no-profit-producing machines, no-profit-earning labourers, have no economic existence at all; and if they happen to be *actually on* the wheel—as in the case of a patch or patches of worthless land lying among the good acres, but not detachable from them; or an old and worn-out machine, kept going to enable capable workmen to earn their bare wages

by its use in periods of transition or when work is slack; or of labourers who just earn their wages, and are kept on as a charity, or what not—they are really not on it as *economic* entities, and so do not count; in a word, they do not form part of the subject-matter of Political Economy, or its laws. Now, if we bear these points in mind, two important conclusions will be seen to follow;—the first is, that in any organic or organised product made up of the play and interaction of different organs or factors, no one of these can for purposes of analysis or investigation be suppressed, or reduced to zero, but all alike must be held to have *positive* values. Otherwise you would have such unnatural phenomena as trees growing into the sky when you suppressed the organic factors that imposed on them limitation, measure, and proportion; or men with bodies and no heads, or with stomachs and livers but no hearts; or perpetual-motion machines that would go on for ever, etc.—impossibilities all, which in the world of Nature do not, and cannot exist; the fallacy of the method lying in not seeing that some definite *positive* amount of each factor, however small, must exist in every instance; and that you have no alternative but either to make all the factors that enter into the product, zero,—in which case the product ceases to exist,—or to give them all alike a definite positive value. And this fallacy, as we shall see, pervades the whole of the orthodox and academical economists' treatment of the problem of Rent. And the consequences of this, again, are two, first, that there being no such thing, economically speaking, as a 'margin of cultivation' or land paying no rent, a 'margin of capital' or capital paying no profits, a 'marginal labourer' or a labourer not earning for his master more than his wages, it follows either that all Rent, all Profits, and all Labour, enter into the price of their united product, or that none of them do. The academical economists have unanimously agreed that all alike, Land, Labour, and Capital, enter into the *product*, but that only two of them, the profits of Capital and the wages of Labour,

enter into the *price*,—Rent being excluded. And we have now to ask, what is the source of the fallacy by which this anomaly of the exclusion of Rent, so contrary to the natural opinion of every business man, has found its way into the orthodox science of Political Economy.

To begin with, then, I imagine it took its rise in the mere fact of the existence of a special class of men, the landlords, who doing nothing, were able to draw to themselves while they slept as it were, large slices of the produce of industry; the instrument by which this was done, the Land, being so simple and uncomplicated, so separate from either machinery or labour, that it seemed as if it might be quite legitimately detached from the other factors of industry, Capital and Labour, as a thing that could be set aside in a niche by itself and be reduced to some simple law; after which, it would be easier to determine the shares of the remainder, when uncomplicated by Rent, that would fall to Capital and Labour respectively. And it was to find some way of determining not only the definite share of the produce of industry that would fall to Rent, but also the cause of the difference of rents between one landlord and another, that some accurate *instrument of measurement* was required. And as all instruments of measurement,—even a two-foot-rule or a tape measure,—must begin with nought or zero, so, too, it was in the measurement of the differential rents of land, which could only be accurately compared if all alike started from some real or imaginary no-rent land. And hence it was that the conception of a 'margin of cultivation,' or no-rent land, found its way into the science of Political Economy. But no sooner had it made its entrance as a mere instrument of calculation, than it speedily gave rise to the illusion that there was such a no-rent land on the 'margin of cultivation' in actual economic use, besides strengthening the illusion with which its authors had set out, namely that Land, as one of the instruments of production, could be detached from the other instruments of production

and subjected to economic measurement by itself, and without reference to any action it might have on Capital and Labour, or they on it, when the price of the product of their united services had to be redistributed among the landlords, capitalists, and wage-earners, respectively, as payment for these services. At that time no one had thought of detaching Capital and Labour from each other, in the same way as they had detached the Land from both the Capital and the Labour, and subjecting them to the same mode of measurement by means of a real or imaginary zero of no-profit capital, and no-wage-earning labour. And the reason of this was, that it was generally felt that Capital and Labour were too intimately bound up together, and that they varied too much in relation to each other to be separated and independently estimated, just as we can imagine a man's hair to be cut off as a superfluity, and estimated independently of the rest of the body, in a way not possible with the heart or the liver. Besides, the very conception of an employer using a machine that brought in no profit, or a labourer who only earned his wages, would have seemed such an anomaly that it did not occur to them as possible. It is true that Ricardo at this time had got the wage of the labourer down to a 'bare subsistence wage,' but then that affected the capitalist, whose profits were correspondingly increased. It is true, also, that Ricardo and Mill had fixed the no-rent land or the 'margin of cultivation' at the point where Capital and Labour received just the current rate of profits and wages, and no more; so that if the usual rate of farmers' profits stood at 10 per cent., say, the margin of no-rent land would have to be fixed at a different point from what it would have been if profits stood at 5 per cent.;—and therefore it may be said the economists did see that Land varied in relation to Capital and Labour. This is quite true, but still the mere fact that Capital and Labour got precisely the same profits and wages when working on the hypothetical no-rent lands as on lands paying rent—inasmuch as any excess over the current rate, which

would otherwise have gone to Capital and Labour, is skimmed off by the landlord as rent,—was sufficient of itself to create just so much illusion as to Rent being in some way different in its laws from Capital and Labour, as to prevent the economists from going any further at that time; the land that paid no rent being always figured as patches lying here and there in the midst of land that did yield rent; the good and bad being averaged together, as it were, and the no-rent patches only serving to lower the average rent of the farm. But it was not long before it began to be seen that the same mode of measurement which was applied to Land, could be applied to Capital and Labour as well: and that if there was a no-rent land, so, too, there was a no-profit-earning machine, and a no-profit-earning labourer; the difference between a better class machine and a worse in turning out the same product, or between a superior and an inferior workman in the same class of work, being precisely the same in principle as the difference between a fertile and a barren corn field. I first came across this principle definitely stated in one of the early Fabian tracts, if I remember rightly; but the general conception of 'marginal units' had already been introduced by Jevons; and the general conception of the laws of Rent as being applicable to the differences in the products of Capital and Labour as well as of Land, flowing from this conception of 'marginal units,' had been utilized and brought definitely into prominence by Marshall. Then, again, Von Thünen's 'law of substitution' which dealt with the 'marginal units' of Capital and Labour, and by means of which he sought to show, as we have seen, that their products being interchangeable, neither Capital nor Labour could get any ultimate advantage over the other in the matter of profits and wages, had already appeared; while Henry George's general statement of the law, in his 'Progress and Poverty,'—introduced by him to prove, in opposition to the Socialists, that there could be no exploitation of Labour by Capital, inasmuch as the smallest capitalists and the best of the

workmen were interchangeable,—had made the conception of 'margins' familiar to the general body of economic readers: Professor Clark making special acknowledgment of his debt to George in this particular. And since then, again, Mr. Hobson with his usual wariness and penetration has, in his 'Economics of Distribution' given a more rigidly scientific statement of the whole question of these 'margins' than any of his predecessors had done. But at the earlier time of which I have been speaking, none of the economists ventured to regard the differences between the worst forms of Capital in use and the best, or between the worst labourers employed and the best, as being the same in *principle* as between the worst lands in use and the best, and so to try and assimilate the laws of Capital and Labour with the law of Rent. And, indeed, their hesitation need cause us no surprise, for it would have landed them at once on the horns of this dilemma;—namely that either Rent, as well as Profits and Wages, enters into the price of commodities; or if Rent does not, then neither do Profits nor Wages;—a frankly impossible situation! But the strangest circumstance of all, and one that shows how firmly the orthodox economists have been able to fasten their law that Rent does not enter into price on the necks of every school of Economists down to the present hour, is that no one has as yet had the boldness to affirm that *all* Rent, as well as Profits and Wages, enters into price. And this is what I now venture to do,—with becoming deference, I trust, to the great array of authorities against me, for whose consensus of opinion on this important subject I have, in spite of my different point of view, the greatest respect. Even Mr. Hobson, who sees quite clearly the identity between the *differential* rent of Land and the differential rents of Capital and Labour, and openly asserts that land put to superior uses enters into price, still hesitates, if I read him aright, to assert definitively that *all* Rent, as well as Profits and Wages, enters into price. But I can myself see no logical escape from this conclusion; and it behoves me

therefore to go into the matter somewhat more fully and carefully.

In the first place, then, the primal source of the error (as I regard it) into which the orthodox schools have fallen on this question of Rent, being, as I have said, their treating separately the factors of Land, Capital, and Labour, instead of keeping them all together as parts of a single complex whole; and this procedure having been prompted by their laudable desire to find out how much of the product would go to the landlords, capitalists, and labourers, respectively; they were led directly to the use, as we have seen, of no-rent and no-profit margins for purposes of measurement and calculation, and so (had they only followed their own argument to its logical conclusion), to the absurdity that neither Rent, Profit, nor Wages enter into price. Now had they kept the factors of Land, Capital, and Labour solidly together, instead of treating each separately, they would have seen at once that as they all enter into the product in *definite positive* amounts, and are each allowed for by the capitalist in estimating his costs, these zero or tail-end margins of each factor would have been whipped off at the start; and that some *positive* amount of each in definite *proportion* to the rest must always enter into price; the proportion of each which will thus enter being settled, like all other economic things, by all being put on the wheel and this proportion definitely fixed by the ordinary law of supply and demand; while the particular *combination* of the three which fixes the *price* of the product in the particular market to which it is sent, will be that one which gives the *lowest* yield and yet is necessary to meet the demand; all the other and better producers getting an advantage over the weaker, not in a rise of price but in an increased yield—unless, indeed, they choose to combine and, by the superior efficiency of their instruments of production, drive the weaker producers from the market by starting a fresh price on a lower level.

And this leads us to our second, but indirect, proof that

Rent as well as Profits and Wages enters into price. For just as in a thermometer there are degrees of frost *below* the freezing point—which for the nonce we may assume as the zero or 'margin of indifference' between heat and cold—so in the same way there are degrees of sterility or uselessness below the no-rent land on the margin of cultivation; and as the degrees of frost enter into the quantity of vegetation quite as much as the degrees of heat, only that they do so by *lessening* its amount instead of increasing it; so there can be no question that land below the 'margin of cultivation' enters into price, inasmuch as the costs incurred, say, in pumping out a water-flooded mine; or in keeping a patch of no-rent land permanently drained, or free from thistles, to prevent it injuring the adjoining rent-paying patches; or in paying extra insurance against floods, volcanic eruptions, earthquakes, or what not, raises the price: and this in turn shifts the zero-margin from which rent will begin to be paid, precisely in the same way as the use of old rickety machines which do not pay for their repairs, or old worn out labourers who do not pay by their work for the wages they receive, also affects price, and shifts the zero-point from which Capital will begin to receive differences of profits, and Labour to receive wages above its keep; like those ghosts in Hamlet and Macbeth, or the ancestral spirits of the Japanese religion, which though dead, yet enter into the works and lives of men. If, then, in the present stage of industrial development every product is the result of the *conjoined* operation of the three factors of Land, Capital, and Labour; and if any change occurring in any one of them alters its price,—whether by lowering or raising it, whether directly by itself or indirectly by its reactions on the other factors;—it follows that all three factors alike must enter into price. And this, again, leads us to point out once more how curiously the symbol of the divided stick, which has been the bane of the orthodox Economy from the beginning, is still found in its latest and most differentiated developments, and how it falsifies the

solution of every problem into which it enters. In the present case it takes the form of drawing an arbitrary line or 'margin of indifference,' as it is called, like the freezing point on a thermometer, across the centre or lower end of their instruments of production; all above this point being regarded as a positive or plus quantity, and all below it as a negative or minus one; with the absurd result that while all below it enters into price by increasing the costs and lessening the supply, and all above it by increasing the supply and lessening the costs, nothing on the imaginary marginal line itself enters into price at all. It is as if they had arrested a cannon ball at some point in its flight, called that point zero, and then agreed, as in the paradox of the 'flying arrow,' that while during all the rest of its flight on either side of this imaginary point the ball was in motion, at this point itself it was at rest, and not moving at all! And from this, again, it follows that the academical economists can get no true law of Distribution from keeping the instruments of production apart, and manipulating them by means of these imaginary zero-margins of no-rent and no-profit-earning abstractions; or in other words, that in a purely dynamical science you cannot begin with mere statical subdivisions ending in imaginary 'margins of indifference.' etc., and then think you will allow for the dynamical complications afterwards, for that would involve you from the start as we have seen, in all the fallacies of the 'Achilles and tortoise' and 'flying arrow' paradoxes which come directly from the use of these statical units and margins, and from which you cannot afterwards escape; on the contrary you must *begin* from the start with a dynamical construction, in which the great motor factors, or instruments of production, planted at different points around the circumference of the wheel, propagate their influences from one to the other in a *continuous* movement, without pause or break; whether this dynamical construction take the form we have given it in this book of a running wheel, or some other and better one which it is for the future of

Political Economy to discover; the statical elements being brought in, as we have already seen, in the form of *obstructions* at this or that point to the free running of the wheel.

So much, then, for our first problem, namely as to whether Rent enters into price or not;—and it is evident that if we are right, Professor Marshall, who with his statical method and imaginary marginal levels denies not only that Rent in general enters into price, but that even monopoly or scarcity rent enters into it,—on the ground that by his 'law of substitution' there will always be found some substitute which will by competition keep the price down to a no-rent margin,—has in these later days of the bankruptcy of the old orthodox Economy, wandered far from the path. The issue, then, presented to the reader for his consideration in this problem of Rent is quite clear;—The orthodox and academical economists, proceeding by their statical method of the divided stick, and having followed Jevons in subdividing this again into infinitesimal increments ending in 'final units,' 'margins of indifference,' etc., hold that while Profits and Wages enter into the price of a commodity, Rent does not; my solution, on the contrary, founded on the dynamical method from the start, is that Rent, as well as Profits and Wages, enters into price; and that if it does not, neither do they, inasmuch as the marginal method which has been applied to Rent, can equally well, and by the same principle, be applied to them.

As for our second problem, namely as to how the price of the products of Land, Capital, and Labour, is to be apportioned between the landlords, capitalists, and wage-earners, respectively, and by what law, if any, this is to be determined, I know of no work in connection with which this problem has been better discussed than in Professor Clark's 'Distribution of Wealth,' inasmuch as he has carried the statical and marginal method to the farthest point it has yet reached. Professor Clark inherits the tendency which is so characteristic of the best American authors in every department of thought, of keeping his eye

firmly fixed on practical realities and their relations, rather than on abstractions; and with the changes going on in America on the great scale in the methods of industrial development—as seen in the organization of the great Trusts, etc.,—as an ever present object-lesson, he has been enabled to shake himself quite free from the fallacies of the orthodox school of Mill and Ricardo, and so far as *their* doctrines are concerned may be said not to belong to the orthodox school of economists at all. But like all the other academical economists of recent years whom we have passed under review, he has been hooked by the subtle bait of these 'statical marginal' theories of Jevons and his pupils of the English and Austrian schools; and imagines, like Walker and Marshall, that he can get a valid law of the distribution of wealth by cutting off at a stroke all the dynamical differentiating elements at the start, and reducing the problem to a purely statical one;—first by keeping each factor, or instrument of production, entering into the product, namely Land. Capital, and Labour, separate from the rest; and secondly, by reducing these factors each to a series of homogeneous units stretched out like the homogeneous hypothetical points of a mathematical line; the last, or 'marginal' one, of these points, being the one which is to determine the share of all other units entering into that particular factor—whether it be Land, Capital, or Labour—and so yielding the statical law of distribution of which he is in search. After which, he proposes in a second volume, not yet published, to work in those dynamical elements which he has purposely excluded from the narrower statical presentation which he has given us in this first volume, in the hope that when these dynamical complications have been added to or superimposed on the statical, the result of the union will be a formula or law which can be depended on to hold true of the distribution of wealth as it *actually* exists. In the meantime and so far as he has gone, the result he has arrived at from his purely statical study is, that under perfectly free competition,

the rent of all land, the interest of all capital, and the wages of all labour tend to be equal to that part of the produce which is separately to be attributed to the 'marginal' landlord, the 'marginal' capitalist, and the 'marginal' wage-earner respectively; whereby it comes about, as he puts it, that "the product and its pay are identical." But as the dynamical elements which, like another Caligula, he has felt himself obliged to cut off at a single stroke before he begins, in order to arrive at this simple law, are no less important than the following:—(1) the increase of population, (2) the increase of capital, (3) improvements in the methods of production, (4) the substitution of combination for competition, and (5) the amount of consumption, it seems more than probable that when he comes to add them to, or otherwise work them into his simple statical law, their effects on this law will, like the simple formula of 'liberty, fraternity, and equality,' with which Rousseau was to regenerate the political world, end not in a modification of his statical law merely, but in its entire revolution! But as it would be as impertinent as it would be unfair for me to criticise here his preliminary statement of the law before he has given his own full expression to it—and especially as my criticism would have to be made from my own purely dynamical point of view,—I would venture to commend to those readers who may desire to see a current criticism of it from his own standpoint, Mr. Hobson's detailed criticism in the 'Journal of Political Economy' for September, 1904—a criticism with which I entirely agree, and to which I can add nothing worthy of being inserted here. But one prediction I will permit myself to make, and it is this;—that when Professor Clark's new volume on the dynamics of Distribution does appear, he will either have to start by wiping out as with a sponge all he has written, and begin afresh from a purely dynamical standpoint, or else he will leave the problem of Distribution in a more hopeless confusion than when he began his labours. For the problem being, as I have attempted to

show throughout this book, essentially a dynamical one, the statical elements must be subordinated to the dynamical from the start; but as Professor Clark, like all the academical economists, believes it to be essentially a statical problem, though with dynamical variants and accompaniments which have to be allowed for afterwards, the consequence is that instead of a *dynamical* wheel moving amid fluid homogeneous *conditions*, he starts with the homogeneous conditions—free competition, unlimited quantities of the different instruments of production, and unlimited freedom in their movements—but with nothing whatever in the nature of a dynamical construction, either of a wheel or anything else, to move in them! And the conclusion he deduces from it all, so far, is as we should expect, that no factor,—no instrument of production, whether Land or Capital or Labour,—can get any advantage over the others; that there will be no exploited surpluses got by one out of the others, no scarcity rents, no monopoly prices from combinations and Trusts, no exploitation of wage-earners (owing to a modified form of Von Thünen's 'law of substitution' being everywhere in evidence), and in a word, no injustice in the existing distribution of wealth at all; but each will get what it earns, neither more nor less,—'the product and the pay being identical.'

And now, in closing this chapter, if I am asked in turn by the reader what my own theory of Distribution, as seen from a purely dynamic standpoint, is, I will answer in a word, as before;—There is no law of Distribution as such at all, but only "the good old rule, the simple plan, that he shall take who has the power, and he shall keep who can;"—that is to say, that the distribution of wealth is a matter of the relative economic *powers* of those who own the instruments of production,—the landlords, the capitalists, and the wage earners—at any given time and place; that it is a contest between these living dynamic powers and these only; and that the one which has the 'pull' over the others, whether from economic situation,

economic combination, or what not, will take the lion's share of the produce as in war; the rest having to take the leavings;—whether those who have the power be the landlords, as was the case in England before the repeal of the Corn Laws; or the capitalists, as the great Trust magnates in America; or the wage-earners, as in Australia and New Zealand—modified of course and mitigated everywhere by the free play of *competition* on the margins and fringes, and in the interstices between each: as when prosperous workmen turn themselves into little capitalists or little capitalists go back to their trades; or when the army of small retailers compete with each other for customers;—but nothing more.

CHAPTER VI.

THE ACADEMICAL ECONOMISTS.

(Continued).

GRAMMAR AND MATHEMATICS.

IN the preceding chapters of this work I have endeavoured to follow the evolution of the orthodox academical Economy from the time of the Mercantilists down to our own day, and have discussed in more or less detail practically all the main positions which have been taken up by its leading representatives; but before passing on to a consideration of the fresh germs of thought which have been dropped into it, as it were, at points here and there along its course by independent outside thinkers, I am anxious to gather up into a definite statement the results which have followed, and which in my opinion must follow, the statical method pursued by the orthodox and academical economists.

The first is, as indeed we might know beforehand, that no 'law' in the scientific sense of the term, whereby from something known you will be able to foresee something unknown, and on the result of which human action can be taken, can emerge from a science of Political Economy founded on a purely statical basis, inasmuch as every law is in its very nature a *tendency*, and always involves *movement* from one point to another,—whether it be direct, or by reaction and rebound,—or, in other words, it involves *dynamical force*. It

always involves, besides, at least two *different* terms between which the law operates, and which it has to draw into a unity of relation. If it be a law of the human mind, for example, which is in question, then it must draw a relation between a thought, say, and a feeling, or between one kind of feeling and another, or between both of these and the will, or what not,—as is seen in the penetrating maxims of great poetic philosophers like Bacon, Carlyle, and Emerson, and in the interplay of action and passion in the dramas of great philosophic poets like Shakespeare and Goethe. Or, again, if it be a physical law that is in question, like gravitation, then the law must draw a relation between one body in space, and another but *different* body whose movement under the influence of the first the law seeks to determine. But no law of any kind can be got out of the relation between two parts of the *same* thing, as between the two divisions of a stick, nor yet from its infinite subdivisions; and this, as we have seen, is precisely the present method of the academical Political Economists. Indeed one might almost go so far as to say that every step of their procedure is as if designed to prevent any real law whatever from emerging. Instead of keeping the different factors in direct relation with each other, their tendency has been more and more to isolate them, and to treat each in relation *to itself* alone, by mere subdivisions and margins of itself; with the result, as we have seen, that not only have they discovered no true law, but have fallen into the most convicted fallacies which the history of human thought affords,—perpetual motion, the 'flying arrow,' the confusion of the laws of dead with the laws of living things, the cutting of an organism from its environment and treating it as if it existed by itself alone, etc. I am aware of course that many mathematical problems bearing on human life can be solved by statical methods; but that is only when the dynamical force or power which enters into them, and which is always presupposed in the background, can be dispensed with for the nonce, inasmuch as, like gravitation,

it acts *equally* on all things alike from outside them: just as the water which envelopes alike all the fishes that swim in it, does not alter their relations with each other. But in all *human* Sciences like Political Economy, the dynamical powers concerned are the possessions of living individual human beings, are part of them as it were, and so tend to accumlate around and adhere to them; and are not like mere physical things, such as sea-sand which is washed on and off the beach with equal indifference as the tides and waves determine. And the consequence of this for the Academical Political Economists is, that they can get nothing more out of their Science than mere abstract definitions, or mere inventories of the various rules and practices of business men, digested into summary abstract formulæ which they dignify with the title of 'laws.' And although these are quite necessary for the purpose of teaching the elements of the Science to the youths for whom their text-books are written, they are as barren as the rules of grammar; and will no more enable the pupil (as true laws ought to do) to construct an economic scheme, than definitions of the 'parts of speech,' or catalogues of the rules of grammar will enable a man to construct a sentence above the average, or to write a line of poetry above mediocrity. What these *statical* dividers of single sentences into their separate clauses, with the proper use and disposition of verbs, adverbs, prepositions, etc., do, is to *follow* some recognised master of style who has furnished them with a model; in the same way as a grammar of music is but a pale abstract statical re-hash of the practice of the great musicians. It is the same with the statical Academical Economists who, to make up for the want of scientific 'laws' in their works, give minute analyses and elaborate abstract digests of the practices of the most successful business men in their industrial operations; so that the idea of a Government calling them in to advise, as is often done, on some economic problem, is as absurd as if on a medical one, they were to call in the newspaper reporters who had been sent around to report

on the methods of the best men in the profession, instead of directly consulting the medical specialists themselves. And that I am not doing the academical economists an injustice in this impeachment of their methods, may be seen by a glance through any of their text-books, and in none more, perhaps, than in the works of Professor Marshall. For when not engaged in giving names to super-subtle distinctions which the ordinary business man takes for granted as truisms and matters of course,—such impressive looking abstractions for example as 'Marginal Utility,' 'Producers' Rent,' 'Consumers' Rent,' 'Composite Demand,' 'Composite Supply,' 'Quasi-Rent,' and the like, most of which ideas I have had to use in this volume without giving them these high-sounding names, and so boring the reader by elevating into importance platitudes he already knows,—Marshall is mostly occupied in discussing such a purely business question as the different modes of investment of capital; but discussing it, it must be admitted, not with any pretence of adding anything to the knowledge of the capitalists actually engaged in these operations, but simply of making a short-hand abstract transcript of them and the considerations which are operative in the mind of the capitalist in deciding to invest his capital in this or that way. The reader is informed, for example, in carefully expressed phrases, of the considerations which decide a farmer to sow oats instead of wheat; as to whether he shall concentrate his operations on the cultivation of superior soils by *intensive* methods, or extend them to inferior ones by *extensive* ones; of whether on a balance of considerations a manufacturer or builder should add another story to his manufactory or dwelling-house, and so save his rent charges, or extend it laterally by taking in fresh ground, and so increase his rent costs rather than his capital costs; or of whether a farmer should hire a reaper and employ fewer men, or more men without the reaper; or whether it would be more profitable to use horses instead of men on a particular job or not; and so on. Even the ordinary fact that

business men will substitute one instrument of production for another if it will do the work more cheaply,—as when, for example, they substitute horse-power for human labour, or steam-power for horse-power, and so on,—is, as we have seen, dignified by the name of the 'law of substitution'! It is expressed by von Thünen, its discoverer, as follows;—"So far as the knowledge and business enterprise of the producers reach, they will in each case choose those factors of production which are best for their purpose. The sum of the supply-prices of those factors which are used, is as a rule less than the sum of the supply-prices of any other set of factors which could be substituted for them. Whenever it appears to the producers that this is not the case, they will, as a rule, set to work to substitute the less expensive method"; and this ponderous platitude is illustrated by Marshall from the fact that there are certain kinds of field-work for which horse-power is more suitable than steam-power, and *vice versâ*, and that there is a narrow margin on which either could be indifferently applied, which margin, again, also is elevated into importance by being characterised as the 'margin of indifference'; and then comes the sage reflection that "on that margin the net efficiency of either horse or steam power will be proportioned to the cost of applying it." In the same way, too, on this "margin of indifference" the wages of skilled and unskilled labour "will bear to one another the same ratio that their efficiencies do at this margin of indifference." And again in reference to hand power and horse power, the reader is informed that "their prices on this margin of indifference must be proportionate to their efficiency"; and so, as the upshot of it all, it is claimed by Marshall that "the Law of Substitution will have established directly a relation between the wages of labour and the price that has to be paid for horse power." But in order that there may be no mistake about it, he lets Von Thünen himself sum the matter up in his own words;—"the efficiency of capital must be the measure of its earnings, since if the labour of

capital were cheaper than that of men, the undertaker would dismiss some of his workmen, and in the opposite case he would increase their number." Now although it must be admitted that these are the veriest platitudes, it may be said that the conclusion drawn from them is of prime importance, inasmuch as it establishes a real Law of Distribution. For that conclusion is, that "free competition tends to make each man's wages equal to the *net product* of his own labour, or the *discounted value* of the produce of his labour"; to which Marshall adds that "this is not an independent theory of wages, but only a particular way of wording the familiar doctrine that the value of everything tends to be equal to its expenses of production"; and taking as an illustration an additional shepherd employed on a grazing farm, who just earns his wages and nothing more,—that is to say, a shepherd on the 'margin of indifference,'—he concludes that this 'marginal shepherd' adds to the total produce a net value just equal to his own wages, and therefore that "the wages of every class of labour tend to be equal to the produce due to the additional labour of the marginal labourer of that class"; or, in other words, that the value of the produce of his labour, and his wages, are identical. Now I have introduced these quotations here as instances to prove that out of the statical method of the academical political economy, no scientific 'law,' in the proper sense of that term, can possibly emerge. For in these quotations we see as in a mirror all the fallacies which I have attempted to expose in the last chapter. In the first place, no capitalist employs a marginal labourer at all,—that is to say a labourer who only earns his bare wages,—or if he does, it is either from miscalculation or as a charity, neither of which considerations can be used to establish a law of political economy; and so Marshall's marginal labourer must be cut off. In the second place, there is no such thing as absolutely free competition, or even a tendency to it, among the capitalists who are supposed to employ these 'marginal labourers';

inasmuch as the aim of each capitalist is to seize the power which comes from *combination*, in order to extinguish competition;—whether, as in the giant Trusts, by a union of capitalists to produce on a large scale, and so extinguish the smaller isolated ones; or by using the superior instruments of production which they may chance to have in their own hands,—whether of larger capital, better patents, better situation for transport, better reputation, or what not,—for the same purpose. And this, in turn, will not only whip off the 'marginal labourer,' but whole batches and establishments of labourers in the employ of those smaller defeated capitalists who are forced by the competition of the larger firms to close down their works. In the third place, the triumphant capitalists in thus cutting off whole regiments of 'marginal' men, have by that very act cut off the head of the "Law of Substitution" itself at a stroke; inasmuch as it is only on these margins between Capital and Labour, where cranes or horses or steam power can be employed instead of men, or men instead of them, that, by the admission of these Economists themselves, the law is held to operate. And hence, to conclude as we began, we may say that just as in Astronomy you must have two *different* points on the earth's circumference from which to get a law of measurement for the distance of a planet or a star; so in Political Economy you must get two different and opposite points on the circumference of the wheel, if you are to get any economic 'law' whatever. But the academical Economists by ruling out Consumption at the start as one of these necessary points, made it impossible for them (with their one factor only, of Production) ever to get a 'law'; and so, with their endless refinings and useless distinctions, could only end in Saharas of sand merely.

I am aware, of course, that Professor Marshall has hedged himself against the imputation of not having the two factors of Production and Consumption necessary to get a 'law' of Political Economy, by a pronouncement like the following, which he repeats in several parts of his volume;—that "the

amount of the commodity and its price, the amounts of the several factors of production used in making it and their prices, mutually determine one another, as balls lying in a bowl determine each other's position." Now this looks as if he had found at least the two factors which I claim are necessary for the establishment of a true scientific law; but on inspection it will be seen that he is only dealing with one after all. For the 'amount of the commodity and its price' is only one of the divisions of the single factor Production, and is quite a different matter from what it would have been had he said "the amount of the commodity *sold* and its price," for that would have definitely pledged him to the admission into his proposition of the factor of Consumption as a distinct and separate factor in the Science, the variations of which, by affecting Production at every point, make it a necessary constituent not only in this or that law, but in every 'law' of the Science whatever. But Professor Marshall, having thrown out Consumption as a definite factor altogether, that is to say, having cut away half of the wheel, can no more get a 'law' out of Production alone, by merely subdividing it into factors of production on the one hand, and the products of these factors on the other, than he could get a law out of his pair of scissors in his criticism of Jevons' theory of Value, where, although he began with two blades, he gave one of them nothing definite or positive to do. But if the reader is still unconvinced, and still feels that I must be doing the academical Economists some injustice, all I can do,—if I am not to drag him, already wearied, through more instances of the same fallacious method,—is to make them a direct challenge to produce a genuine law of Political Economy, in which the element of Consumption as a definite factor is left out. And I will go so far even as to defy them by their present statical method to get anything more out of their Science than either mere definitions of terms, catalogues of the accredited methods of doing business, or (in the way of professed 'laws'), such identical propositions (as in the case of

differential rents, profits, and wages), that twice two are four, and that things that are equal to the same thing are equal to each other. The truth is, the Science as it exists to-day is a pseudo-science in precisely the same sense as perpetual-motion is a pseudo-mechanics.

But before taking farewell of the academical economists, I wish to say a word or two on the Mathematics which have been so freely employed by their later representatives since their use by Jevons. Owing to the general contempt into which the academical Political Economy has fallen in these later days, — a contempt which I have in this volume attempted to prove is thoroughly justified,—the economists in their extremity have snatched at the high authority of Mathematics not only as a shield to protect them from the taunts of the vulgar, but as lending an air of greater scientific precision to the science itself. And it is this latter consideration which has been mainly instrumental in producing that curious assumption of special and exclusive authority which is becoming more and more noticeable in the younger economists who have been brought up under this mathematical régime. In the recent Fiscal Controversy, it may have been observed that such phrases as 'the consensus of experts,' 'expert economic opinion,' and the like, were freely waved over the heads of their antagonists by these younger men, to silence contradiction and to close discussion as by papal authority: and on looking more closely into the source of this arrogance, so foreign to the earlier exponents of the Science who never claimed more for their arguments than their natural weight in the ordinary exchanges of the world of thought, it soon begins to dawn on one that it is to the mathematics which have been imported into the Science that these lordly assumptions are due;—as when, in a particular instance which I remember, the reader was told that 'the full proof of the argument in question involved much intricate mathematical calculation, but that he might take it for granted that this was how the matter stood,'

etc., or words to that effect. Now I might as well say at once that in my judgment this appeal to Mathematics as helping to establish any doctrine of Political Economy whatever which otherwise would be unable to stand on its own feet, is entirely gratuitous; and this for the reason I have already given, namely that whatever result a mathematical calculus may grind out at the end of an argument, is entirely conditioned by the presuppositions, axioms, postulates, and general relations put in at the beginning; and that if these do not represent the true organic relations of the different factors of the subject-matter dealt with, the mathematical manipulation of them by the calculus will only make them more definitely and irretrievably false. Given, for example, that the average length of life of human beings in a given community has been correctly estimated, the 'law of probabilities' will work you out a table of insurance rates on which an insurance company can rely to realise a dividend for its shareholders; but if the average length of human life on the one hand, or the dangers to which from outside circumstances the particular community is exposed on the other, were to alter, Mathematics would be obliged to construct an entirely new table of insurances to meet the altered relations with which the company had to deal. In other words, the mathematics must *follow* the general laws and relations of the facts on which it has to operate when their complications get beyond the range of ordinary human foresight; but can never *precede*, anticipate, or prescribe to them. It is the same with Political Economy. When once you have ascertained the way in which Taxation, for example, is shifted from one class to another, mathematical diagrams and formulæ will enable you to calculate its incidence in individual concrete cases with a degree of certainty impossible without their aid; but they cannot help you, unless you have made sure of the general laws of taxation beforehand. It is the same, too, with the mathematical curves for determining Rent and Value, which are only of use *after* you have discovered the true laws which determine Rent

or Value in general; otherwise, they are not merely useless but positively mischievous, inasmuch as they lend the high authority of Mathematics to what lies quite beyond its sphere. And hence it is that if I am right in my contention that a dynamical wheel is the true symbol from which have to be deduced the laws of the production, exchange, and distribution of wealth, and not the academical symbol of the infinitely divided stick, the whole set of mathematical formulæ used by the Science to work out the quantitative aspects of its laws must be entirely changed.

CHAPTER VII.

THE OUTSIDE ECONOMISTS.

AMONG the Economists from outside the orthodox and academic ranks who have either pointed out particular fallacies in the old system, or have added fresh considerations from a wider range of thought which in their aggregate have gone far to discredit that system altogether, I may mention the names of Comte, Carlyle, Ruskin, Marx, Henry George, Gunton, Robertson, Mallock, Hobson, and the members of the Fabian Society; and before closing this volume I feel it incumbent on me to point out, if only in the most general and discursive way, what the contributions of these men have been. But as the aim of this book is rather to make a first rough sketch of a new system of Political Economy founded on purely dynamical principles, than an encyclopædia of the doctrines of existing schools founded on statical ones, and as I have not, in the matter of space, that 'wide sea of wax' over which the poet in 'Timon of Athens' was accustomed to disport himself, I am obliged to omit much otherwise interesting matter, and to confine my criticisms to a certain limited class of particulars, if I am to avoid blurring the unity of my own presentation just ended, by overlaying it, as it were, with a mass of heterogeneous opinions drawn from the most diverse and conflicting points of view. And the point at which I propose to draw the line in these exclusions is where these economists follow the

errors of the orthodox and academical schools which I have passed under review, inasmuch as any re-arguing of these purely statical principles would only be a waste of time, if the reader, after all we have said in deprecation of this method of approaching the great problems of the Science, still remains unconvinced.

The first great thinker, outside of the ranks of the professional Economists, who occurs to me as having protested against the entire method of the Orthodox Political Economy, is Comte, who in his controversy with Mill confined himself mainly to insisting in general terms on the great broad fact that there could be no ultimate truth in any system which had so completely cut itself off from the currents of general civilization as had the then existing system of Political Economy, with its 'economic man,' etc., as expounded in the writings of Mill; and as with this protest of Comte's I entirely agree, nothing further need be added to it here. But long before either Mill had written his book, or Comte had entered his protest against it, Carlyle,—who many years later in his 'Latter Day Pamphlets' declared that he had been compelled 'for his sins' to read 'barrowfuls of treatises' on Political Economy,—had written his 'Sartor Resartus' and his 'Past and Present,' and had hurled his satirical gibes at it, on the ground of its immoral, inhuman, and anti-social tendencies, in the hope that this would of itself be sufficient to arrest public attention, and compel thoughtful men to reconsider their attitude to what had now begun to arrogantly claim for itself the title of a 'science.' He nicknamed it the 'Dismal Science,' and suggested that if its professors could not make anything more out of Malthus' doctrine of Population than that the working classes were, by the so-called laws of Political Economy, fated to increase in numbers to the point where they would reduce themselves to starvation, the capitalists had better at once imitate the practice of the Spartans with their helots, and shoot down their excess for the sport of it as it were, and 'to keep their

hands in!" And then turning on them seriously, he wanted to know why, if their very horses were secure of a well-fed subsistence, their human workmen with their infinitely finer capabilities, who by their skill at the loom and the spinning-jenny were at that very time not only contributing to the wealth of the capitalists but to the abounding wealth of the nation itself, should not be able to earn their living on some more decently human terms than those of semi-starvation; how it was that stacks of shirts could lie piled ceiling high in warehouses in times of glut, and not be able by any known human expedient to get on to the backs of the very men who had made them, or corn get into the stomachs of the men who had sown it, and watched over it, and reaped it? And further, if by their impotent doctrine of 'laissez-faire' an excess of Population had been allowed to become the fatal barrier to any solution of the problem, why, if the nation could spend twenty millions sterling in a year to shoot the French, it could not raise the merest fraction of that sum to emigrate the superflux, and educate, regiment, and coerce the derelicts and the rest into the paths of useful labour again? All this he demanded time after time with indignant iteration; and indeed I must confess that were my rôle that of the 'moralist' instead of the 'philosopher' this is precisely what I too should want to know even down to the present hour. For this impeachment by Carlyle of the orthodox Economy, and of the successive British ministries that embraced it, was in its issue a purely *moral* one; and for the first time since the decay of the Feudal System, recalled the nation in general, and the governing classes in particular, to a sense of the duties and responsibilities of society to all its members alike. But he omitted to do the one thing needful—and it is an omission which all those who assume the prophetic rôle would do well to ponder—he did not attempt to refute in detail, and by reasoned arguments, a single one of the orthodox economic doctrines against which in general terms he inveighed. He simply repudiated them all

alike, on the moral ground that the tree must be judged by its fruits; and with the general feeling in his mind that something was wrong somewhere with their system, without precisely seeing where, called on them to put it right before he would even consent to discuss it; much in the same way as he refused to discuss a single definite doctrine of the French Revolution, or a single utilitarian doctrine of the reigning political school of Bentham. Nor did he, so far as I can remember, confront a single doctrine of the orthodox Economy with a parallel but opposite one of his own, so as to give his readers a hint of precisely where, or on what, it was that he wished them to fix their minds for the purpose of arriving at a true decision, but confined himself to gibes and general denunciations merely. Had he done otherwise, I feel sure that by the majority of us young men of the time, in whose eyes he had something of that 'mystic sublime reputation' which he himself attributed to Coleridge, his every word would have been weighed, and have received our most serious and careful consideration. But as he did not choose to take this course, and apparently felt that by reason of their very monstrosities he could not do justice to the doctrines of the Economists except by a wholesale denunciation and repudiation of them, his diatribes, in spite of his assurance that he had read 'barrowfuls' of their treatises and text-books, had not the slightest effect;—proving that no mere diatribes, unless they are supported point by point by reasoned criticism, are of any avail when you wish to convince, and not merely to hypnotize for the moment, the serious and thoughtful student. But in thus doing an injustice to his readers and to his opponents alike, he did a real injustice to himself also. For, strictly speaking, Carlyle was one of the most profound and penetrating thinkers on all problems bearing on human life, that the world has yet seen; and when he did go down into the depths of any problem, always struck bottom;—as I found to my surprise when in later years I had to handle some of these problems myself. Indeed, as I have already had

occasion to insist more than once, no man could have given the interpretation he did to Goethe's celebrated 'Tale' who had not the profoundest insight into all the great dynamic forces of Civilization, of Society, and of the Human Mind, in their most complex and intricate interplay, down to the minutest particulars. Speaking for myself, I am bound to admit that I cannot recall with my utmost effort and as my own experience of all these problems becomes larger, more than one great general principle in which, in my judgment, he went practically wrong; and that was, his curious insistence on the *indentity* of the moral and intellectual faculties in each individual,—a doctrine which led directly to his presupposition that the man who was great in one thing could, if he chose to exert himself, be equally great in all, and which ended in his 'Great Man' theory of Politics;—a theory which Emerson spent his life in controverting by insisting on the opposite and, as I believe, truer doctrine, that the greatest 'great man' is great only at his own peculiar angle, and that Society depends, like a necklace of jewels, on a circle of great men of all kinds and shades, to give it the unity, the harmony, and the completeness it requires. But how profound and penetrating, in spite of this, Carlyle was on all the great issues of Society and Life, may be seen in the simple fact that all we young men who at that time railed at his doctrines and prophecies, have only had to give him fifty years or so for every one of them to come true;—his prophecy, for example, of the impotence and final bankruptcy of the orthodox Political Economy; his recognition of the fact that man being an animal that goes in herds, must follow the law of all herds, and make for himself heroes real or imaginary, before whom, *once made*, he is only too proud to prostrate both intellect and heart; and further, his assertion that the whole chain of doctrines which hung on the denial of this great central truth—namely *laissez-faire*, abstract liberty and equality, the sovereignty of the ballot-box and universal suffrage, negro franchise, Utilitarianism, Scientific Materialism,

and the sovereignty everywhere of *abstract* instead of *concrete* ideals—was a collection of merest half-truths, and at bottom, if we consider it well, of denials of the principle of Evolution which carries both them and their complementary halves and opposites on the bosom of its ample and all-embracing stream.

Now all these doctrines,—involving as they did an attempt to make a society progress by following its tail of mediocrities who are the veriest slaves of their environment, instead of the great initiative and controlling spirits who have to foresee, devise, invent, carve out the path, and lead the way,—were believed in at that time, thirty years ago, as words of holy writ, and hence the denunciations of Carlyle fell on unheeding ears; so that in his old age, and within a generation of the time when they were one and all to be thrown out by the world as convicted impostures that had strangled themselves when sufficient time had been given them to do it in, he had to complain that he and Ruskin in all England, as a 'minority of two,' were the only ones who could be found to seriously question them. But what with the prestige of Adam Smith and his gospel of *laissez-faire*, among the politicians from Pitt downward, whom the people had made their leaders not only in Politics but in Economics as well; what with the 'intellectuals' who as followers of Bentham and Mill had captured the advanced organs of opinion; what with the beautiful candid mind of Mill himself, and the glamour it threw over the elaborate logical apparatus of half-truths of which, as we have seen, his system was built up; what with the rapid succession of superficial politicians, windbags many of them, who had caught the ear of the masses, as well as of the half-baked, self-made leaders of the working classes who being mainly men 'of one book' and of one shibboleth, posed as 'intellectuals' and so became each again in turn a kind of subsidiary tail to these political windbags;—what with all this, the rising Science of Political Economy had got itself so entrenched and rooted in the soil of general 'public opinion'

that in spite of the people being on the verge of starvation, not only the denunciations of Carlyle but even the immense prestige of the Crown and Aristocracy (always the most potent factor in opinion of all kinds in smooth-running times) had no effect against it.

And yet, as I have said, I am convinced that had Carlyle thrown off his prophetic mantle, and instead of alternately railing and denouncing, like some old Hebrew Prophet, had set himself down quietly to work out the fallacies of the old Economy in detail by the ordinary methods of logic and demonstration, he had both ability and penetration enough to have arrested, if not averted, the consequences of these doctrines of the orthodox Economy; not only as regards the Land of England,—which as we see has gone half out of cultivation since then,—but for the Working Classes in their struggles to earn a 'living wage' as well.

But the capitalists having captured the economists, and the economists in turn having captured the politicians, the working class leaders, and the nation generally, nothing could arrest the triumphant march of the orthodox Economy with its gospel of 'laissez-faire' and Free Trade; and it now only remains for the great Trusts of the world to get hold of the Instruments of Production, by Protection, and then turning the hose of Combination on the smaller 'laissez-faire' capitalists wherever they are to be found, to drown them all out in turn, to make the rout of the old Political Economy complete. But to return. Ruskin, meantime, who prided himself on his purely analytical powers, finding that the words of Carlyle in denunciation of the old Economy were falling on deaf ears, and sympathizing besides with his righteous indignation at the practical results of its teachings, determined to take the field himself in defence of his master; in the hope that if he avoided his error of general abuse and denunciation, and went into the subject in detail on fresh lines, he might do something to stem the popular current in favour of the reigning Economy. But

before giving an outline of his scheme, I may remark in passing, that never in the history of human thought has so marked and entire a change come over the method, principles, structure, and organization, of the Sciences dealing with human, as distinct from purely mechanical and physical things, as that which within the last two generations has made the principle of Evolution the standpoint and guiding star from which all political, moral, religious, and economical movements are surveyed; and further that nowhere do we become more conscious of this change than in studying the two books of Ruskin on Political Economy—'Unto this Last,' and 'Munera Pulveris,'—both of which were written in pre-evolutionary times. They are purely *statical* in their standpoint from their first pages to their last, and seek to gain their end by painting on the sky, as it were, an ideal moral picture of what Political Economy *ought* to be, in elaborate detail, for the contemplation of statesmen and business men of all times and places, rather than by showing precisely *how* this millennial ideal was to be reached. And although his work was intended to be an extension of the moralized economic principles of Carlyle, it nevertheless differed from what Carlyle would have done, had he seriously tackled the special problems of the orthodox Economy, by that whole world of difference which separated the two men both in their temperaments and in their general intellectual equipment. Carlyle, although his ends and aims in all things were quite as high and ideal as those of Ruskin, would have nothing to do with anything weak or sentimental, or even conventionally moral, in the handling of practical problems;—as indeed is sufficiently evidenced by his almost brutal insistence on the necessity of resorting to force in great emergencies, as in the French Revolution and the Irish Campaign of Cromwell; his admiration for the promptness and effectiveness in action of men like Frederick the Great and Napoleon, and his apotheosis of great men of action generally; as well as in the contempt he always exhibited for men who,

ignoring realities, thought to remedy unfavourable conditions by pouring buckets of 'rose-water sentimentalism,' moral precepts, and phrases like 'liberty, fraternity, and equality,' over them,—as seen, for example, in his contrast of the methods of Robespierre, on the one hand, and of Mirabeau and Danton, on the other. And I doubt not that had Sir Robert Peel called on him, as he hoped, to preside over one or other of the Government 'circumlocution' offices, he would have done the work of clearance of the 'red-tape' methods in vogue there, in a way that would have been an enduring object-lesson for practical men in every department of government. So, too, had he lived to-day and been called on to handle the problems of Political Economy in their practical bearing, he would have begun by recognizing with Shakespeare, that the world in every department would soon become an unweeded garden were it not that our intellects and wills have been given us to be its gardeners, and would have allowed no mere Law of Population of Malthus or another, to so over-run the field that there was no standing room left for anybody, while he sat moaning and groaning retrospectively over it,—and then generalizing his groans into 'laws' of the Science of Political Economy. Nor would he, like the present Academical Schools, have permitted any tail-end or 'marginal' pieces of useless No-Rent land, any 'marginal' machines or wage-earners 'eating their heads off' and earning no profits, to make their way into the data of the Science, but would have cut them off ruthlessly to start with, as butchers do bits of dead and useless carcass, and so be done with them once and for all; and would then have constructed his Science out of factors every one of which was dynamical and alive—the Science being a *human* one and therefore fluid and coercible, and not, like the physical sciences, rigid and unamenable to human methods—and have got the morality which was his ultimate aim, out of his mode of combining and handling them. In other words, he would have permitted no merely *statical* elements to form any part of his

solution, except in so far as they were obstructions to be got out of the way, but would have struck at once to the heart of the matter by trying to find out what the *dynamical* elements in it were, and getting a firm grasp of them and their relations; as knowing well that all the rest were but mere dead surplusage which could be coerced and made to follow obsequiously the great lines of dynamic power. Or, to put it differently, he would not have treated the subject analytically or *retrospectively*, by looking at it from the stern of the boat as it were, but *prospectively* from the point of view of the projectors of economic enterprises who take their stand on the bridge as their point of outlook, and not only steer the boat but generalize the laws of the Science from that standpoint; thereby keeping the theory of the Science parallel with, and a living transcript of, the actual methods and operations of business men. If the game of Wealth that was being played were to have a purely *moral* end in view, he would have laid out his principles and rules in one way; if the end, on the contrary, were to be the mere accumulation of *wealth as such* by individuals, he would have played his cards in a different way and on a different principle of combination; and if the question were of whether this mere money-getting end were to be purely *national* on the one hand, or *cosmopolitical* and international (however much any particular nation might be injuriously affected by it) on the other, then again he would have handled the great dynamical factors in a yet different way. But in any case Carlyle would have kept his eye fixed on the central *dynamic* powers involved, in whatever confusion or complexity they lay, or with what obstructions soever they were entangled, and would not have rested until he had seen how they were to be handled so as to reach the end in view.

But with Ruskin all was different. In his enthusiasm to reach Carlyle's great aim of *moralizing* all the relations of Industry, instead of pointing out the successive economic expedients by means of which it was to be attained, as was

expected of him after the formidable and elaborate analytical preparations with which he set out,—he begins and ends by merely inworking his moralizings into the interstices of the details of the processes, in the hope apparently that if he could only once present the world with a harmonious picture and pattern of what would be the most *ideal* moral relations between landlord and farmer, farmer and labourer, capitalist and wage-earner, master and servant, rich and poor, and so on, on lines of the purest *abstract justice*, men might be induced to set about realizing it. And accordingly he begins by arranging his pieces in a *hierarchy* of values, as on a chess board, founded on the inequalities of men in ability, character, moral and æsthetic culture, spiritual elevation, and so on; and not, like Rousseau, as on a draught-board, where the pieces between whom the moral and economic relationships were to be wrought out, were all on an absolute equality of value. This done, he would then attach to them the salaries or wages they were to receive, each and all definitely fixed;—so much for a prime-minister, so much for a general, a bishop, a lawyer, a doctor, the different grades of skilled workmen, common labourers, navvies, etc. With the pieces thus arranged on the board, and each given its proper value, the reader naturally expects the game to begin, but to his surprise he finds that there is no game to be played, that this arrangement *is* the game, and that these figures of Ruskin's are expected to remain where he has put them like the statues of saints in the niches of a cathedral, or say, rather, like the mixture of heroes, saints, extortioners, and malefactors, in Madame Tussaud's exhibition; and that if there is any game or problem to be solved, it is how to *keep* them there as they are! Ruskin accordingly exhausted all his ingenuity in trying to prove that once fixed in these their proper statical attitudes, all the apparatus of the old Economy which was devised to enable them to escape, and so to begin again their depredations on each other by playing the old game of general and

reciprocal exploitation,—would have been checkmated and sealed up. And the first argument he uses for this purpose is his demonstration of the difference, if men would only consider it, between real *wealth* and mere *riches*; the first being, like a perfect-fitting suit of clothes, a garment suitable in every way to the authority, dignity, culture, taste, spiritual or moral worth of the wearer; while the second is only a mere ignoble accumulation of base money coins, or documentary credits convertible at pleasure into coins, which, like counters, have no value or utility in themselves, but which, if you can only capture enough of them, can, like opera tickets, be used as instruments of extortion for the purpose of gaining mere base *power* over other people, whereby they may be forced to empty their purses, and (in the case of the working-men) part with their instruments of production and become your economic slaves. This was well and right nobly said by Ruskin, and is a real distinction; and he punctuates it still further when he demands from the capitalist an answer to the question;—why, if two men present themselves for work at your factory gates and you want to employ only one. you should make the fact of there being two, an excuse for beating down the wages of the one you select to a lower point than you would have done had there been only one applicant for work? A most pregnant question, and one which not only Ruskin but the world of working-men themselves, were they not 'mostly sheep,' would demand to have answered. It is not the rule of the game, answer the capitalists. Precisely so, and they too are right. But when we wait to see how Ruskin is going to alter it, like all the economic moralists he can give no practical help, but merely suggests that you should select the workman you want, pay him the full regulation wage, and let the other go; or in other words, as he says, pay the same wages to good and bad workmen alike, but employ only the good. And this he thinks could be done if all individuals and classes alike,—whose incomes by his arrangement were

definitely fixed for them,—would consent to work as one man for the benefit of the nation as a whole,—much as all the individual bees in a hive work for the good of the swarm—and if the masters would not begin to gamble on their own account the moment that prices began to rise. But unfortunately, like all purely ideal statical constructions which are intended to be fixed and permanent, the amount of pruning and paring necessary to fit the heterogeneous millions of a population into their respective niches, where full justice shall be done to each of them, would involve a limbo for castaways compared with which in range and extent Dante's Inferno of the damned would show as a mere molehill on the landscape. For without some means of coercing the Population into limits—an unsavoury question which Ruskin was either too delicate or too reticent to tackle—the number of those whom his rejection of the intellectually or morally unfit would require to be chloroformed or otherwise painlessly extinguished, would, if no provision were made for them—and he makes none—choke up the streets of his Utopia to the doors; just as in a hive of bees, where the statical construction of the hive is intended to be fixed and permanent,—and not as with human beings who follow the gleam of a series of dynamic moving ideals which change their nature and character from age to age—the periodical holocaust of the drones is a necessity of the very existence of the hive. But on all this Ruskin is silent; and so, by cutting off quite the most important half of the problem, and the one where all its entanglements and difficulties lie, and from which they are perennially recruited, he left the problem as he found it, still unsolved.

But if we are asked, in turn;—Have Ruskin's labours in the economic field, which he himself prized more highly than all his other work, been altogether in vain, we answer unhesitatingly, by no means. On the contrary, he definitized once and for all the economic moral ideal at which all men should aim, and so quickened the general conscience on a whole region of life

which, under the convenient formula of 'business is business,' had practically cut itself off from the other great humanizing and civilizing currents of the world and been left a prey to the wolves; and so helped to bring it into line with the great doctrine of his master Carlyle, and with the permanent laws of all creatures that go in herds;—namely, that nothing can be left to mere *laissez-faire* or to the unregulated personal and private self-interests of the great body of the herd itself, but that all must depend on those 'great men' in every department who can make their ideas and their wills prevail. But as to how this, again, was to be done on this side of the millennium, Ruskin gives us no hint; and even Carlyle, it will be remembered, had his doubts.—so long as the herd were to have the selection as well as the ratification of these 'great men' in their hands;—inasmuch as they would be sure to elect some 'Bobissimus,' the rich sausage-maker, or some mere man of birth, or sportsman, or frothy stump-orator, as their highest ideal of what their 'heroes' were to be.

The outcome of the work of Ruskin, then, on this subject of Political Economy, when surveyed at a sufficient perspective, is a pure statical Utopia, constructed on a combination of old feudal relations with the mediæval guild-system of master and workman;—as though the Modern World were a mere decadence, and the gradual evolution of all sides of life, involving infinite complexities of adaptation and management in the handling, a thing unknown. His Utopia differs from that of Rousseau, as we have already said, in loading the possessors of the great instruments needed for the production of wealth, with unequal degrees of value, and in confining them to entirely different functions, as well as in giving to different kinds of consumption —as of good books versus good wine—unequal degrees of moral worth; instead of beginning as Rousseau did with a mere sand-heap of undifferentiated units called human beings, all equal in value, all more or less interchangeable in function, and all absolutely free to do as they pleased so long as they did

not encroach on the equal freedom of others;—and so far was an advance over Rousseau's crude utopian dream. It differs from the 'Modern Utopia' of Mr. Wells, on the other hand, in so far as that while both agree that the economic as well as the political world is to be ruled by a special order of men of exceptional ability, Ruskin would give these great ones an economic garniture suitable to their age and position, their dignity, their culture, and their refinement of taste; while Mr. Wells would train them, like Roman Catholic or High Church priests, to habits of a somewhat rigid personal asceticism; but both would give to all men alike *equal opportunities* to rise to the highest positions, as the Roman Catholic Church originally did, wherever or howsoever born. Both must have a limbo for their derelicts and incapables, but while Ruskin leaves the problem of what is to be done with them altogether in the dark, Mr. Wells would have them packed off to some island in the Southern Seas, or other outlying dependency, there to fight out and solve both the problem of existence in general and of their own economic salvation in particular, for themselves. But as in a moving world, where all the elements and forces engaged must keep time and pace with each other, no mere statical immoveable ideal of what all men would *like* to see realized, has any real intellectual value,—inasmuch as it is impotent to show *how* it is to be realized (and this after all is the only test of intellectual penetration), but at most, like a picture-book for children can only be placarded on the walls of the world as an object-lesson for its imitation—it is not surprising that neither Ruskin nor Mr. Wells should have touched even the fringe of the real subject-matter with which they had to deal; and that far from making any attempt to reconstruct the orthodox Science of Political Economy, which, as we have seen is honeycombed with fallacies from beginning to end, they could only sit wailing and weeping over it, and end by leaving it precisely where it was before;—Ruskin hoping and trusting that one of Carlyle's 'great men' would

come along and either persuade or coerce the world into realizing his dream; Mr. Wells, kicking over his own Samurai, and imagining that he could make so complete and harmonious a picture out of the fragments they had dropped by the way, that by its glamour the world might be fascinated into accepting it,—with himself as leader and regenerator!—as if some optician, motor-car manufacturer, or mechanical instrument maker, some over-inflated actor, or what not, were by taking advantage of the popular ignorance on these matters to attempt to throw overboard in their *own* favour the claims of Faraday, Helmholtz, Kelvin, Newton, or Shakespeare,—on the ground, as he expresses it, that the 'creators of utopias' are the real founders of the Science of Sociology.

The next of the 'outside' Economists to enter the field was Karl Marx, with his elaborate attempt to found an entirely new system of Political Economy, in the interest of the Working Classes, on two doctrines of Ricardo's which even the orthodox Economists were just then on the point of relinquishing as no longer tenable. The first was the doctrine of the 'iron law of wages,' as it was called (which was itself founded on Malthus' law of Population), and the second, the doctrine of Value, namely that 'the value of commodities is determined by the quantity of labour necessary to their production.' And the first thing that Marx did was to emasculate this latter doctrine of the truth it contained, by following the example of the orthodox Economists,—whose fallacy of 'averaging' both Profits and Wages we have already seen,—and striking an average of the amount of work done by labourers in a given time,—an hour, a day, a week, or what not,—and then, under the phrase 'average labour-time,' proceeding to stretch on it, as on a rigid Procrustean bed, all labour alike, whether it were that of coal-heavers or inventors, men of brains or men of muscle; subjecting all alike to the same measurement by the pure 'time' of their labour alone. Indeed had it been a question of the Napoleons of the world versus their private

soldiers, the Raphaels versus the sign-painters, Shakespeare versus the ballad-mongers, Wagner versus the players in his orchestra, with whom Marx was dealing, it would logically have been all the same; they would all alike have had to submit to be stretched on this abstract rack of 'labour-time' and to share and share alike according to the number of hours they worked; and I doubt not that if it had been a question of the conquerors and the conquered after a pitched battle, Marx, with his stolid logical inflexibility, would have argued in all seriousness that each side *ought* to have the same share of the spoils, because they had both fought the same number of hours! Perhaps the strangest theory of human life and labour, the most unabashed attempt to grind down all things—great and small, high and low, knowledge and ignorance, the dynamical forces and the statical, the alive and the dead,—into a common undistinguishing level of undifferentiated sand, that the world has yet seen. But before enquiring not so much into the truth of it (for as we shall see there is little or none), but into what has so commended it to human beings that whole nations—and these not the least intelligent—have gone mad over it, a word or two as to its purely economic characteristics will suffice to indicate its real position in the evolution of Political Economy. And I may as well begin by saying frankly that it is made up of all the fallacies of the old orthodox Economy, including some which even the academical Economists, who will allow no part of their tradition to be torn from them without a struggle, have been obliged to resign. So that while they have begun to see that Value depends as much on Utility, as expressed in the 'demand' for a commodity, as it does on the Labour put into it, as expressed in the 'supply,' Marx grossly applies his rigid measuring-rod of Value,—namely *length of time alone*,—to the *production* of a commodity, and ignores its *consumption* altogether. And even here he gets off the track; for the question of Value, even on its purely productive side, is not one of how many units of *time* you are

at work, but of how many units of *product* you can turn out in a given time—quite a different matter. For it is the units of product in a given time which alone the capitalist who is entering on any industrial enterprise has to consider in framing his estimates; and it is precisely what the labourers would themselves have to consider if they abolished the capitalists to-morrow, and owned and worked the land, machinery, railways, and other instruments of production themselves;—as they would soon discover when they entered into competition with *other* nations for the world's trade, however much they might be content at home to share the product between themselves according to the mere *time* of labour spent on it. For observe, if the same product could be turned out by a newly invented machine in half the time that they would take to make it, by what human device could they sell their product in the open market unless they consented to sell it at half its former price? And what would this mean but that they would have now to accept half the wages for their labour-time that they were getting before? They would have been 'exploited,' in a word, by the new machine which the inventor had sold to a rival nation, as neatly and effectively as if it had been the hated capitalists themselves who had done it. And if they still insisted on having *their* pound of flesh whatever should befall, and proceeded next to put the thumb-screw on the inventor of the machine to force him to give it over to them instead of to their rivals, on the usual terms of the 'labour-time' he had spent on it, and no more, they would now be exploiting the inventor in turn as much as ever the capitalists had exploited them. But if the inventor, defrauded of his due, should strike work and refuse to invent, and they should then proceed, like King John, to metaphorically 'draw his teeth' for him one by one until he consented to present them with the contents of his brain, how would their tyranny differ from that of the capitalist-masters under whom they now groan and against whom they cry to Heaven for justice? But let me

not be misunderstood. For did they now turn round and give back to the inventors and brain-workers, in honour, authority, prestige, and esteem, what they had expropriated from them in wealth, they would, in my judgment, have struck on a constitution of economic society as nearly perfect as on this side of the millennium we are ever likely to see. They would then have given their really 'great men' in Carlyle's sense of the term, the place of honour and initiative. But would they do this? Not they; on the contrary they would give the chief seats at their feasts to the 'wind-bags' and coiners of phrases, the platitudinarians, and be-puffed mediocrities,—especially if they were good 'sportsmen,' footballers, cricketers, or what not, as well,—and that, too, in the really sincere belief that these were their 'great men.' For in themselves the miscellaneous masses of men in any nation are nothing, a tail of ciphers merely; they can imagine nothing, invent nothing, do nothing great, however much they may beat their brains for it;—this is the prerogative of *individuals* alone, who are born in every rank, and can come only by what the theologians call 'the Grace of God.' Were you to pack all the ordinary chess-players of the world into the Albert Hall, not all their combined heads put together, with their vote taken on each move before it was made, could get even within sight of a 'draw' from one of the great masters of the game. And it is the same with the game of War, of Poetry, of Music, of Art, of Mathematics, of Philosophy, of Religion, or of intellectual penetration generally in any department of thought or life; or even, if you will, down to billiard-players, cricketers, and the really great 'sportsmen' in every line. The great players are always *individuals*, always uniques, with unbridgeable gulfs between them and the rest of the world; they are the only dynamical forces of the world; the rest are but mere statical accompaniments and chorus, mere ballast to keep the ship steady, mere critics, like those who surround a cricket or football field, with just ability enough to decide on the merits of

the great players, but not able to play themselves, and whose function it is either to hiss or applaud. So that if in this game of Industry any nation were so rash as to turn out the men who discover, invent, organize, and legislate for its future, or to rob them of their just reward, and to put a miscellaneous herd of navvies, coal-heavers, and ordinary workmen in their place, it would speedily find itself over-run, routed, and reduced to a tributary and dependent position by the first great nation that came along, which, like Japan, gave to its great men a free hand. And this brings us at once to the crux of the Marxian Socialism both as to its truth and its falsity. Its falsity consists in its not seeing that while the workmen are exploited directly by the capitalists who own the pistols and pull the triggers, they are really made to stand and deliver by the pistols,—that is to say by the machinery,—which can do the work of thousands of men in a given unit of time: and that this is the work of the great scientists, inventors, and organizers, and not of the capitalists or of the workmen themselves: and that if you are going to raise the question of *justice*, according to the ordinarily accepted standards, it is to these that the 'surplus product' belongs. The truth in it is simply that they are the 'exploited'; and moreover that they must forever be exploited in greater or less degree by their own incapacity, ignorance, and delusions. Let them lay to heart this golden sentence of Emerson's—'It is the imbecility of the masses that invites the impudence of power!' High-minded men in every walk of life, yearning to give the working-men every advantage, have gone out of their way, and at the cost of much personal odium have at last succeeded in getting for them the franchise, saying to them—'Now you can have no longer any cause of complaint: you have the vote; do not, therefore, be afraid to exercise it until your grievances are redressed.' But have they so used it? On the contrary, as Lord Beaconsfield, who had made a special study of the baser admirations of the world foresaw when giving it to

them, they actually used it for forty years or more to keep in power,—whom? The very men whom all the time they were railing at as their oppressors! Even in America, where every man is born not only with the franchise, but with every chance of winning in the race of life any position in the Republic which is within the reach of any other man—what has this immense mass of working-men done, or stood by and seen done? They have stood there with the vote in their hands and have seen gigantic Trusts rise under their eyes and become so powerful as not only to strangle all other capitalists, but to well-nigh strangle them also and reduce them to the position of the merest slaves. And why? Because of their own base admirations, and their secret belief that these magnates were really their 'great men.' They think of nothing else, talk of nothing else, dream of nothing else, but to be like them. For it is not the intellectuals, the educated, the cultured, the refined, the people of brains in any nation, who keep up these baser ideals; on the contrary it is the masses,—as Gambetta said of the Clergy in France,—who are 'the enemy.' Indeed, it is only now as I write, that the working classes of England, after forty years of impotence, have at last made up their minds that they will support their own representatives at the polls. So far well. But if they should succeed in packing the House of Commons with an overwhelming majority of their own members, what then? Would the fact that man is an animal that goes in herds, and so must follow the law of all herds, be made, as St. Paul says, of none effect? On the contrary, it would end as the Christian Church did, which beginning as an assemblage of equal units,—and, like the working men of to-day, equal mainly in their poverty,—had, almost before a century had elapsed, placed itself in subjection to bishops, each of whom affected the state and magnificence of princes; and (before many centuries had passed) under a Popedom which in wealth and State was equal to, as indeed it was an imitation of, the

pomp of the throne of the Cæsars itself. And I will go farther and venture to say, that if General Booth, for example, were to announce to his legions of followers throughout the world to-day, that the dignity and authority of the Salvation Army demanded that its Head should be clothed in all the outward insignia of power befitting its numbers and importance,—even were it for no other reason than as another way of attracting the masses, different in form perhaps but the same in principle as its big drum and cymbals—he would be lodged in a palace to-morrow like the Popes, and could, if he would, establish a dynasty of Booths to succeed him and to rule over the Salvation Army, precisely as the Church through its College of Cardinals did before him. Let the working-men, therefore, perfect their Trades-Unions and make them as strong and solid as possible, and elect their representatives to Parliament in numbers as great as they can; but at the same time let the other classes of the community do the same, and hold their own as tenaciously and as long as they can; as knowing well that in the long run it will all end in the old familiar spectacle of the 'upper and the under dog;' and let all alike ponder well the twin generalizations of Thucydides and Shakespeare which I have had occasion to refer to before, and which ought to be inscribed in letters of gold on the walls of the world for its contemplation. In the innumerable wars among the petty States of Greece in his own time, Thucydides had observed that when any dispute arose between two States which were nearly *equal* in power, so that each was not quite sure of the issue in the event of an appeal to arms, they treated with each other on the basis of *reason* and *justice*; but that when one State was much more powerful than the other, it dictated its terms at the sword's point alone—a generalization as true to-day as then, and of which the bullying attitude of Russia to Japan *before* the late war affords a most pointed illustration, and one which will not soon be forgotten. This is the first generalization which all men and nations may well

lay to heart as a permanent law of the world. The second is where Shakespeare in 'Troilus and Cressida' makes one of his characters say that it is *between* 'the endless jar' of Right and Wrong that *justice* resides—'Wrong' in this connection meaning all that is comprised under the conception of absolute Power and Authority, Custom, Precedent, and the traditional relations between men; and Right meaning the pure *abstract ideal* of Right. Or in other words, until the millennium of pure abstract Right arrives, Justice must always be a *compromise* between the established claims of the 'powers that be' and this abstract ideal of Right—a generalization which is the only sound definition of concrete Justice which the law of Evolution can support, and which Shakespeare alone had the penetration to perceive in pre-evolutionary times.

Leaving, then, Karl Marx with his legions of Socialists to ponder these twin generalizations of Thucydides and Shakespeare, while fighting for their own abstract social and moral ideal; and wishing them God-speed in their determination to get a larger share of the good things of this life for themselves, so long as, in popular parlance, they do not in the process 'kill the goose that lays the golden eggs,' we may now pass on to the contribution of the next 'outside' Economist on our list—Henry George. But before doing so, it is only fair to say on the side of Modern Capitalism that when once a living wage has been secured to the workmen, the existence of great capitalists like Mr. Carnegie, who are prepared to make it a point of honour to return to the public the whole or a greater part of the 'exploitations,' if you choose to call them so, which the present game of wealth as played by its recognized rules has given to them, and to invest it for the carrying out of the greatest and highest causes, on the authority and by the advice of the really great men, each in his own sphere, would do more for the advancement of the nation in a single generation than any Government whatever could get done by a popular vote in a century. What Government, for example, would

ever venture to propose to a nation to endow its acknowledged greatest inventors, greatest scientists, greatest chemists, greatest electricians, or what not, on any terms; even when they are doing out of their own pockets the work which has made and will go on making the fortune of the nation? There is no such Government. Millions spent in doles to the incapables, the derelicts, the unthrifty, and the casuals, without a sigh: millions more on the education of the millions whose combined heads no education will enable to turn out a product equal to that of half-a-dozen really great minds; but for these latter the maxim of Governments which the public applauds and supports,—and none more than the capitalists and workmen,—is 'Starve them well; it will do them good; and will make them, like milch cows, yield all the more for *us* to exploit!'

Of Henry George little need be said. He added nothing of value to the Science, nor did he take any step towards its reconstruction. In the main lines of his doctrine, he was, like Marx, saturated both with the methods and the doctrines of the reigning orthodox Economy. His symbol was the old statical one of the divided stick, whereby when profits rose wages were bound to fall; and with him also it was impossible for the rent of land to enter into the price of its products; and although he was largely instrumental in getting rid of the nightmare of Population with which Malthus had affrighted the world, he affrighted it with a parallel bogey of his own in his doctrine of Rent, which, curiously enough, depended, had he had penetration enough to see it, for all the validity it ever had, on that very doctrine of Population which he had himself 'whittled' away to a mere shadow! For it had always been admitted by the orthodox Economists that if you could only arrest Population, the capitalists and wage-earners would have the landlords at their mercy, inasmuch as the lessened demand for food and clothing would create a less demand on the resources of the soil. But George, like all men of ability but with limited culture and confined outlook, became obsessed

with the idea that Rent was about to swallow up the rest of the economic world, profits and wages alike; and that men's very existence, whether as capitalists or workmen, was to be as much at the mercy of the landlords, as in Eastern lands their heads are at the nod of Sultans and Rajahs. And although the rents of the world were hedged about with as many compensatory limitations to prevent them from growing into the sky, as its populations, on which these rents depended, were from increasing until they filled up the landscape and left no further standing room, George could see no rift in the pall of darkness which encompassed the law of Rent, and no loop-hole of escape from it; although, as we have said, it could only be a danger just so long as that Law of Population which he had exhausted his ingenuity in 'spiriting' away, remained. And yet, had he only paused for a moment to look around him, he would have seen that compensations like those which he so clearly saw limited the law of Population, were already in existence to remove his fear of the Law of Rent. For at that very time, the railway magnates of America and the great Trusts that sprang from them, were beginning to get their coils around the necks of the farmers and landowners; and had George lived until to-day he would have seen his landlords who were to swallow all, themselves led to the slaughter, and skinned and stripped to the bone by these same Trusts, now in their full bloom and maturity—proving to us again how impotent and false all so-called Laws of Distribution are when divorced from Power, and its resulting exploitations, however or by what means soever attained. Not that the *differential* rents of Land are of no effect, any more than the differential rents from superior machinery and other instruments of production; but the one is no more a bugbear than the other. Land itself without machinery and transport, would be as cheap to-day as when the Red Indians roamed over it; in the same way as the machinery and transport would be useless without the resources of the land. But it had apparently

never even dawned on George that there was such a thing as a rent got without labour from the possession of a superior invention, process, or machine, precisely as was the case with the possession of a piece of superior land, or of land in a superior position for business purposes, as in the centre of a great city; and not seeing this, he imagined that on the 'margin' between Capital and Labour, the defection of a few petty masters to the ranks of labour or of a few labourers to the ranks of petty capitalists, like the defection of a few stragglers and camp-followers from an army to its opponents, was sufficient to keep the balance between Capital and Labour so even that neither could get any advantage over the other; and that therefore the profits of Capital and the wages of Labour would by this self-acting and self-adjusting process, always be equalized. He did not see that these petty masters or men would be as much the slaves of the great Trusts, across whatever boundaries of territory, country, or occupation, they wandered, as the petty chieftains of all Indian tribes whatever are of their Great Chiefs. He did not see, in a word, that the law of combination concealed in his fabled 'freedom of contract,' is always as operative as free competition when it sees its chance; and so he reduced his whole scheme to fatuity. For although he had a mania for clapping conceptions of abstract Justice drawn from what he figured to be 'God's own law,' on every economic situation as it arose, as if they were postage stamps bearing the head of a king, he yet with an elaborate ingenuity of wrong-headedness which to-day must seem almost farcical, poured the 'terrors of the law' on the heads of the landlords alone, allowing all the Rockfellers, the Beef Trust and Cotton Corner magnates to escape! Not that there was a trace of insincerity in his nature, or that any derogation is to be made from his moral ideal which was as pure and noble as that of Mill, only that having struck on his compact little theory of the passage of the smaller capitalists across the border to the ranks of workmen, and of these in turn

to the ranks of the capitalists, he believed that it proved, in opposition to Karl Marx, that no capitalists or Trusts, however colossal their gains, could ever really 'exploit' either their own particular workmen or the world in general. And so he played his part. But if the reader asks what, if any, was his definite contribution to the Science, we may answer that it was a real, although a negative and destructive, rather than a positive and constructive one. He demolished once and for all, and in a way which admits of no derogation from its merits, the old orthodox doctrine which still held sway in his time, namely that Wages were drawn from Capital, instead of being merely formally *advanced* by the capitalists to the wage-earners for convenience; and showed that Wages, on the contrary, were paid out of the produce of the workmen's labour, and not out of Capital at all. Now in this he did a real service to the Science, although only a negative one; for like the removal of a linch-pin or key-stone, it heralded the downfall of the orthodox Political Economy which since his time has so quickly ensued. He was also, as we have seen, the first,—if we except the contribution of Herbert Spencer on other lines,—to rock to its foundation the old Malthusian 'Law of Population,' which with its superficial plausibility and its affectation of mathematical exactitude, had hypnotized the minds of all the orthodox Political Economists for at least two generations. Otherwise Henry George has added nothing of positive and constructive value to the Science; and in spite of the enormous tail of his followers, who were caught up by his simplicity and clearness of statement, his sincerity and candour, as well as by his prophetic fervour, he may be dismissed from the small circle of those political Economists with whose works the world need give itself further concern.

It was when the controversy over Mr. George's book 'Progress and Poverty' was at its height, and when Marx's doctrine—that not only were the wage-earners exploited by their capitalist masters, but that on Ricardo's 'iron law of

wages' they must always be kept down by them to the 'bare subsistence' level,—was beginning to exercise the minds of men in England, that Mr. Mallock entered the field on behalf of the Capitalists. As regarded the actual facts of the situation, Giffen had only recently proved from statistics that the wages of the workers had increased in fifty years not less than a hundred per cent, and that, too, over a period when the purchasing power of the sovereign had remained steady;—the fall in the price of corn and clothing practically making up for the increase in the price of meat and of house-rents. Whereupon Mr. Mallock, taking his stand on this as a solid foundation, was prepared to prove that the reason for this rise in the workmen's wages was not that they had themselves earned it; and pointed out that not only coal-heavers, and ordinary day-labourers, but the skilled workmen themselves, could not have increased the product, inasmuch as their muscular power and their technical skill were man for man no greater than that of the workmen fifty years before; and further, that they were now working a much shorter number of hours. And from this he argued that although the capitalists as a body had increased their wealth in a much higher proportion than the workmen as a body, it was the capitalists alone who by their skill in organization were the source of all this increase of wealth per head of the population; and that far from exploiting the workers and keeping them down to a bare subsistence wage, they had all along been sharing with them the extra wealth which was due entirely to their own exertions.

This unexpected flank movement of Mr. Mallock's brought the Fabians into the field in defence of Socialism in general and of their modified form of it in particular. They had already in one of their Tracts attempted to show,—and with certain reservations justly, as I think,—that the fund from which the interest and profits of the capitalists proceeded was precisely the same as in the parallel case of the landlords, namely from the whole of that 'unearned increment' which

lay between the products of the poorest machinery and plant needed to supply the market (for it was these which fixed the price) and of those superior instruments of production of all kinds which the possession of mere money capital put into the hands of the great capitalists. And proceeding from this standpoint, Mr. Bernard Shaw, who took up the cause of Socialism generally as against Mr. Mallock, attempted to show that these capitalists were for the most part mere idlers trying to imitate the landlords by leading the lives of 'gentlemen,' and doing little or nothing; living on their yachts and letting their poorly paid and exploited subordinates do for them the work which was piling up their colossal fortunes; precisely as the landlords, whom no one had ever accused of doing any work (for at that time the idea that they *ought* to do any would have shocked most people) were doing with their lands. The simple truth, of course, was that it was really the inventors, the scientists, and the discoverers of new processes in every department, whether of Industry or of the warlike defences of the country, to whom the 'surplus' wealth was mainly due; but neither Mr. Mallock nor Mr. Shaw cared to look that way. Not Mr. Shaw, for how could he look into the faces of his poor coal-heavers and the vast miscellany of ordinary hum-drum working men, and say;—These are the men to whom the vast accessions of wealth of the world are due? Not Mr. Mallock, for unless his capitalists were also the inventors of the machines and processes out of which they had built up great industries, how could he pretend that an increase of real wealth of any kind could come out of their mere money-bags as such? To have a 'cause' to champion you must, on the current doctrine of 'the greatest happiness of the greatest number,' have your clients by the legion as a foundation for it; but in the case of the few great men who do the great things of the world, and who at any one time can be counted almost on your fingers, what scope can their grievances, especially if they are poor, afford as a foundation for

a 'cause'? As well try and whip up the sympathies of men for the casuals in workhouses as for them. Their very existence is at once an indictment and a reproach to the world of mediocrities who live and fatten on their labours; and although they are the real kings, yet being expatriated and disinherited, like Napoleon in exile they count for nothing. On the contrary, they may be thankful if like Shakespeare, whom only special royal favour protected, they may succeed in escaping a whipping at the cart's-tail as 'vagabonds.'

And this brings us at last to the two or three 'outside' Economists who within the last decade or two have been instrumental in preparing the way for the reconstruction of the Science on the new principles which it has been the aim of this volume to still further develop, so as to bring all its parts into harmony. These principles are embodied in the works mainly of two economists—Mr. Gunton and Mr. Hobson—although I learn on the authority of Mr. J. M. Robertson's book, the 'Fallacy of Saving,' that there was a work written by a Mr. R. S. Moffat in the seventies, which was the first to call attention to the element of Consumption as a necessary factor in the Science. Of Mr. Robertson's book I may say in passing, that it is one of the most deadly assaults on Mill's 'fundamental propositions' which has yet appeared; and that had the orthodox Economists been alive to their responsibilities, they would by its help have so reconstructed their Science by this time as to have saved it from the reproach of impotency and unreality into which it has fallen. But, as usual, Mr. Robertson's criticism was ignored, only however to subject them to the more elaborate and determined assaults of Mr. Gunton and Mr. Hobson, who like Mr. Moffat had made the neglected factor of Consumption their mainstay in their new method of approach to a reconstitution of the Science. And the reason they have succeeded where the other 'outside' Economists failed, was that Consumption gave them that *second* pole—in relation to Production—which as

we saw in a preceding chapter, is in all the sciences necessary for the establishment of any really 'scientific law' whatever. But there was a difference in the manner in which these two Economists applied it. Mr. Gunton used it from the start more boldly, perhaps, than Mr. Hobson,—owing probably to the necessity imposed on the latter, as a professional Economist, of following the fallacies of the academical and orthodox schools through their various windings, and in a series of volumes which had to keep step as it were with the academical series. And as the point of view of the academical Economists, as we have seen, was a purely statical one throughout, Mr. Hobson instead of throwing it overboard once and for all and adopting a purely dynamical standpoint, has from his long immersion in their methods never, I think, quite succeeded in thoroughly emancipating himself from this standpoint. And although in his *criticisms* he has always proceeded from the dynamic standpoint which his acceptance of the element of Consumption as a definite factor in the Science gave him, still in the *constructive* portions of his work, he has admitted statical elements which in my judgment have been a source of weakness rather than of strength. Indeed, how important I consider it that all statical elements whatever should be got rid of as mere dead obstructions to the living dynamical forces which form the true subject-matter of Political Economy, may be seen in the fact that, in my opinion, it is to them that is due the difficulty in arriving at any unanimity on the most important of all practical problems for nations at the present day—namely that of Free Trade *versus* Protection. I do not know what attitude Mr. Gunton has taken on this important question, but the dynamical standpoint which we have in common, has, as the reader will have seen, led me to a doctrine of Protection as rigid *in principle* as that which is now being practised by Japan; whereas Mr. Hobson does not seem to see his way to any modification of either the doctrine or practice of Free Trade to which England still adheres. And the reason

of this extreme divergence of opinion between two writers who agree in almost every other fundamental doctrine is, I think, that Mr. Hobson has retained more elements belonging to the statical point of view of the orthodox Economists than I can bring myself to admit. But be this as it may, in the fresh solutions which both Mr. Gunton and Mr. Hobson have given to the old problems of the Science, Mr. Gunton took his stand firmly on the position that the Science is a purely dynamical one; and concentrated accordingly on the dynamical factors which a capitalist in entering on any new industrial enterprise holds in his hands, and at once struck down on his central position which was, that the amount of Consumption, as roughly estimated in the wages which the great masses of men have to spend, is the stimulant and efficient cause which keeps the great dynamic factors of Production, like a tightly-strung bow, at their highest tension in order to meet that demand —inventions, new machinery and processes, better cultivation of the land, a greater variety of skill, and a greater efficiency in the workmen, etc.,—and that far from increasing the prices of commodities, this increased consumption, by calling forth all these powers, lowers them; while all the time the landlords and capitalists as a body are getting higher rents and greater profits than before. He saw, too, in opposition to the orthodox Economists and to Henry George, the absurdity of imagining that a rise of rent means a fall of profits and wages; and laid it down as a principle that Rent can no more precede Profits, than Profits can precede Wages; and that a man's land can become valuable only in the proportion in which the capitalists, whether farmers or others, can make profits out of it,—as is seen most clearly in the enormous rents paid for land in the centres of great cities—just as the capitalist in turn can make no profits unless the workers receive wages enough to create a demand for his products;—all in point blank opposition to the doctrines of the orthodox Economy. He sees too with the Fabians, and in opposition to the orthodox Economists, that

owing to the high differential rates of profit which the great capitalists get from the superior machinery and processes which they use, they can afford to pay high wages to their workmen, in the same way as they can afford to pay high fees to their lawyers, their architects, their doctors, and other professional men whose services they require; and that the tendency is for all the lower class of workers to level up, as it were, a stage higher, when the wages of the highest class advance. Now all this, not only Mr. Hobson, but the Fabian Socialists with Mr. Bernard Shaw, Mr. Sidney Webb, and Mr. Macrosty at their head, also see quite clearly; but where Mr. Gunton goes off the track, in my judgment, is in laying down the principle that it is the 'standard of living' of the best paid workmen which is the cause of the higher wages which both they and the inferior ranks of workmen receive; and then proceeding to introduce this 'standard of living' (which is only a *concrete* particular, and one withal as variable as the wind), among the operative factors of the *abstract* science of Political Economy. It would have been better, I think, had he retained it only for its practical usefulness in explaining particular economic situations—such for example as the difference of wages in one country and another, or in one trade and another,—and kept the general term, Consumption, as Mr. Hobson has done, for use in the abstract Science. Otherwise it is apt in time to become invested with something like the rigidity of a fixed idea, as when Mr. Gunton declares that the reason the wages of labour rose from threepence to fivepence a day after the 'Black Death' in England, was a rise in the 'standard of living,'—instead of being due to the simple fact of the scarcity of labour. Does anyone imagine that the capitalists of the East End of London, for example, care a fig for the 'standard of living' to which the hordes of 'sweated' tailors and seamstresses may have been accustomed? On the contrary, were they all born and brought up in the purple, to this complexion of the 'sweated' must they come, if they have

not the economic *power* to protect themselves,—by whatever means attained. And it is the same with every other class of worker in the community, and with every grade. It would be better to let the general conception of 'Power' stand for the ability of workmen to give effect to their economic desires, than a mere 'Standard of Living' which if left to itself would melt like wax in their hands the moment the demand for their services fell off. Besides the 'standard of living' is the result of any one of a number of different causes, each of which is quite capable of fixing it, for the time being, in the individual instances. It may result from a Trades-Union combination, or from simple scarcity of the workers or their skill, or from long established custom which has the conventional force of law, or from access to alternative sources of employment,—as was the case in the placer-mining of California in the early days of the gold discoveries, and which so impressed Henry George,—or what not; but in itself it is too vague, shadowy, and unstable, to be admitted as a definite factor into the Science, inasmuch as it cannot be definitely related to any corresponding factor on the side of Production, so as to get a definite law or equation out of it.

Of Mr. Hobson's contributions to the Science, I cannot speak too highly. He has carried it stages farther than all his predecessors, and has received for his work but the merest modicum of the credit which so justly belongs to him. His excellences are everywhere so marked, the closeness and carefulness of his analysis of all its problems so central and free from bias, that it is difficult to indicate the exact deductions which, in my opinion, have to be made from the truth of his doctrines in any direction, inasmuch as they consist rather of shades of emphasis laid on this or that aspect of his subject, than of any actual fallacies, oversights, or omissions. He always keeps his eye on central realities, and if he allows any mere abstractions to colour his work, they are always imported into it from without but are never allowed to enter into, or pervert the

proper subject-matter of, the Science itself. But as the slightest difference of emphasis at the start is apt to become cumulative when projected through a long series of logical deductions; and as the very slight difference in the setting of the problems of Political Economy with which he starts out from that with which I began this volume, end when logically evolved, in differences so wide as his thorough-going support of the principle of Free Trade and my equally thorough-going support of the principle of Protection; it is necessary before closing to touch on the main principle of his system with some particularity. In his first volume, 'The Physiology of Industry,' he figured the process of Industry after the analogy of the animal body, where the raw material of the food is elaborated by the different organs of digestion, and is carried by the blood-current to be distributed among the ultimate body-cells for its final assimilation and consumption; and this type of the structure and functions of Industry, he has had in his mind and consistently applied in all his succeeding works. Now the advantage of this symbol as a foundation for a constructive Science, over that of the revolving mechanical wheel which I have adopted, is that at first sight it gives a greater appearance of *life* perhaps to a science which is essentially a human one. But although I am quite prepared to admit that when carefully handled, most of the great laws of the Science can be seen reflected in it, I have nevertheless personally discarded it in favour of the symbol of the wheel,—and this for a variety of reasons. In the first place, the symbol of a biological organism is much more complex, and so more difficult to manage when the complications of the subject-matter begin to thicken around it,—and in consequence more liable to the entrance of undetected fallacies—than is the case with a simple uncomplicated mechanical wheel. In the second place it does not lend itself so readily to the separation of what is a purely statical mechanical *product* from what is a dynamical *instrument of production*, as does the symbol of the mechanical wheel. For

just as a separate thumb and fore-finger are together more delicate instruments not only for the finer differences of touch and sensation, but for the better manipulation of objects as well, than if the two were welded together into a single conjoined organ or implement, so the image of an inner mechanical and dynamical wheel running *in vacuo* as it were, and on which *products* are launched to be carried around it in its revolutions, with a separate outer dynamical envelope surrounding it, where the instruments of production reside whose products are thrown on the wheel, is, like a revolving cylinder for the separation of substances of different specific gravities, a more delicate instrument for keeping unlike economic phenomena apart and for keeping like economic phenomena together, than is a biological organism, where although it is true that the purely mechanical and chemical products, as seen in the intake of food and its excretion, balance each other, —and are quite separable in thought from the *vital* organs of the body like the heart and stomach which do its dynamical functioning,—still the complexity is so great that it is difficult to separate them in detail. And hence, in my judgment, the symbol of a bodily organism although it has a greater semblance of life, is not so good a symbol on which to work out the finer analytical processes of Political Economy and its laws, as is the symbol of a wheel. And lastly, when the problem becomes one of the economic relations between separate nations, its complications become much more difficult to unravel when these relations have to be represented in thought as between separate animal bodies, than when they are represented as between simple separate mechanical wheels with their environing motor powers, which can be connected or disconnected from each other by means of belts thrown across between them in all varieties of ways,—and where whole nations can by means of them be set to work, and made prosperous, on the one hand, or reduced to inaction and stagnation on the other, as the case may be. Besides, the symbol of the wheel,

when the problem becomes one of trade between nations, will help us to separate out more clearly in thought the products that are *complementary* from those that are *competitive*, than will the symbol of the relation between animal organisms. And although Mr. Hobson sees the circular nature of all the processes of Industry, the fact that in his discussion of the Free Trade problem he keeps his eye almost invariably fixed on what befalls the *products* of Industry of the trading nations concerned, rather than on what befalls their respective *instruments of production* (which like the engines in a factory are the dynamic motor powers from which all these products are derived) would seem to indicate that the symbol from which he deduces the law of the Science is rather that of a statical circle than of a dynamical running wheel; and this is why when developed from their respective symbols or germs, his system ends in Free Trade, while mine ends in Protection. And in this statical point of view he has had a tendency to be confirmed, I think, from having come to the Science from *within* itself as it were, as a specialism to be dissected and analyzed, while I have approached it from *without* and from the standpoint of general Civilization, of which the Applied Science itself is a dependency which is regulated and coerced by powers outside itself. Besides, Mr. Hobson has consistently kept to a *cosmopolitical* and *moral* standpoint in discussing all international relations, whereas I have upheld throughout the purely *national* standpoint; the former being statical and ideal in its point of view, the latter dynamical, progressive, and following the methods and laws of Evolution.

And now in summing up this section of the history and evolution of the Science in the hands of its most prominent representatives, it is my conviction that were all the works of the orthodox Economists from Adam Smith down to the latest representatives of the academical Schools thrown overboard once and for all, and a fresh start made from the works of Mr. Gunton and Mr. Hobson,—as in Astronomy from Copernicus

and Kepler,—the world of nations to whom the true solution of the problems of Political Economy, and especially that of Free Trade and Protection, is of the most pressing and vital importance, would be the better for it. For so long as the Universities of the world continue to turn out yearly thousands of young men,—many of whom in after life are to control its Council Chambers, its Parliaments, and its Press,—imbued with the principles either of the old orthodox Economy or the latest academical variations of it, the result must be in my judgment, and as the whole of this volume is a laboured attempt to prove, much the same as if the Technical Institutes and workshops of the world were to turn out a race of believers in the theory and practice of perpetual-motion.

FINIS.

INDEX.

A

B

C

D

E

F

G

H

I

J

K

L

M

N

P

Q

R

S

W